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# FINANCIAL TIMES

Europe's Business Newspaper

MONDAY, MAY 9, 1994

## North Yemen units drive on Aden in bid to restore unity

South Yemeni forces were yesterday fighting to repulse northern units attempting a drive towards Aden, the political and economic capital of the south, where Ali al-Beidh, vice president of unified Yemen and political leader of the region, is fighting for his political life. Ali Abdullah Saleh, unified Yemen's president and leader of the north, is seeking to evict him from power and reassert the country's disintegrating four-year-old unity. Page 3

**Investment trusts eye US market:** Representatives of the UK investment trust industry arrive in the US today to press for permission to sell investment trust shares to US investors. Page 6

**Japanese minister resigns:** Japan's controversial justice minister, Shigeto Nagano, resigned over the weekend, just 10 days after taking office, after claiming that the massacre of more than 150,000 people in the former Chinese capital of Nanjing in 1937 never happened. Page 2

**Mannesmann swings into loss:** Mannesmann, German engineering group whose products range from pipes to mobile telephones, reported a net loss of DM15m (\$10m) last year, a sharp swing from a net profit of DM23m in the previous year, partly caused by restructuring costs. Page 17

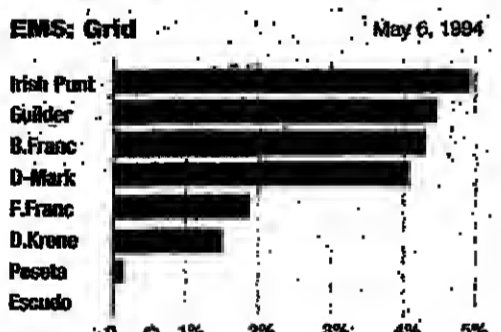
**Multinationals seek investment treaty:** European and American multinational companies are seeking either a US-EU investment treaty or a wider investment pact among members of the Organisation for Economic Co-operation and Development. Page 2

**Traders split from Marc Rich:** A team of 18 ferrous metals traders resigned from Marc Rich, Swiss-based international commodities trading group, to set up Profer, a trading company which will start operations this week from seven offices around the world. Page 17

**EU backs Gulf tariff plans:** The European Union supports plans by Gulf Arab states gradually to unify tariffs, paving the way for a free-trade accord, Greek foreign minister Karolos Papoulias said. Page 2

**US role crucial in Syrian peace talks:** Peace talks between Israel and Syria have reached a serious new level, but will depend on US mediation, Yossi Beilin, Israeli deputy foreign minister, said. Page 8

**European Monetary System:** The Spanish peseta weakened following a week of political scandal and the Danish krone strengthened, but there was no change in the order of currencies in the EMS grid after Germany, France and Belgium edged rates lower. Currencies, Page 33



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies are permitted to fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilders which move in a 3.25 per cent band.

**Finland and Sweden join peace alliance:** Sweden and Finland today move away from their long-standing neutrality and join the Partnership for Peace alliance devised by Nato. Page 5

**Boost sought for Airbus jumbo:** Aerospace of France is to press its European Airbus partners to step up marketing and development efforts of a 500 to 550 seat airliner to challenge the monopoly of the US Boeing company in the jumbo aircraft market. Page 4

**Serb banker claims UN sanctions beaten:** Dragoslav Avramovic, governor of the Yugoslav National bank, claimed that his economic programme has almost defeated United Nations sanctions, after he managed to reduce inflation from 300,000 per cent to zero. Page 4

**Row over EU training funds:** The British government is refusing to submit plans for spending £530m (£75m) of European Union funds available to the UK for retraining workers in industries undergoing structural change, such as the motor industry, saying it should be used for training the unemployed. Page 6

**Post office chief in sell-off talks:** Bill Cockburn, chief executive of the British Post Office, has held talks with investment bank SG Warburg about how best to privatise the corporation, although the government has yet to announce the results of a review of the Post Office's future. Page 6

**UK police helped recover painting:** Britain's Arts and Antiques Squad helped Oslo detectives recover Norway's most famous painting, "The Scream", by Edvard Munch, it emerged yesterday.

**Win for Ballesteros:** Seve Ballesteros of Spain won the £50,000 (£949,000) Benson and Hedges open golf championship at St Mellion, England three strokes ahead of Britain's Nick Faldo. It was Ballesteros's first win for 26 months.

Capital investment down 28% ■ Tax revenues fall fast ■ Company debts spiral

## Russia in deep crisis as output plunges by 25%

By John Lloyd in Moscow

A deep deterioration in the Russian economy over the past six months, with steep falls in production, investment and tax revenues, risks creating a "social explosion", the Ministry of the Economy has warned the government.

In the past few days the ministry has released a string of data for the first quarter of the year, which suggest the economy is in the midst of a deep crisis. A 25 per cent fall in industrial production in the first three months of this year compared with 1993, is threatening hundreds of thousands of workers who are being laid off with little or no pay.

The prestigious Zil industrial complex in Moscow, which employs 85,000 workers making white goods and trucks, has put thousands on extended holiday and plans to halve truck production to 50,000 this year. Mr Yevgeny Brakov, the Zil general director, said the company was in a "very difficult position".

According to the official Russian Information Agency account of the data, the ministry warned that a drop in output of consumer goods "threatens the economic independence of the country and brings the danger of a social explosion".

The warning of the looming crisis was rammed home on Friday by Mr Oleg Soskovets, first deputy prime minister in day-to-day charge of the economy. He told the official Tass news agency: "Russia is living through the toughest phase of its transition".

Moscow is facing a critical choice. It could increase credits to help out the ailing state sector, but that would compromise its fight against inflation, which has come down to between 8 and 9 per cent a month from a high last year of nearly 30 per cent. That reduction has been crucial in gaining access to international

Finland and Sweden join peace alliance. Page 5

Monetary Fund finance.

However, Russian economists warn that if it retains its tight monetary stance, it could within months trigger a rise in unemployment to between 10m and 15m which would threaten Russia's fragile social stability.

In an effort to alert his compatriots to the looming economic threat, Mr Victor Chernomyrdin, the prime minister, wrote in the weekly magazine "Rossiya" that it was "vitally necessary" to stop unwanted production - citing tanks as one such sector.

"Don't wait!" he exhorted factory managers. "Something else is coming! Bankruptcy is com-

ing!" The indicators of Russia's deepening crisis include:

● The 25 per cent fall in industrial production in the first quarter of the year appears to be accelerating, according to preliminary figures for April.

Production of sugar, shoes, fabric and clothes has fallen by between one third and one half. Car, bus and truck production is relatively better, standing at 85 per cent of last year's level. However, some leading car plants such as the AZLK (Moskvich) factory in Moscow output is down by between one and two

thirds because municipal authorities have no money to renew their fleets.

Investment in capital projects, including state investment in infrastructure, in the first quarter shrunk to Rb12 trillion (about \$7m), 28 per cent down on 1993. The economics ministry report on investment says that work on the most state and regional authorities' investment projects has stopped. Foreign investment remains "weak", with only \$180m being invested in the entire Russian economy in the first quarter.

● Tax revenues are falling fast. Government figures show tax col-

lection short by Rb3.4 trillion - or 15 per cent below budget in the first quarter. Regional authorities are increasingly reluctant to pass collected taxes onto the central government, according to officials in Moscow.

● Debts held by enterprises are spiralling as customers, other enterprises, further up the supply production chain, become increasingly unable to pay for supplies. Many plants will refuse orders unless they are paid upfront in cash. The economics ministry's figures show overall corporate debt has risen threefold in the last six months, to stand at about Rb589 trillion.

● Public support for continued reform is collapsing, according to a poll taken last week by the polling organisation of the Russian Academy of Sciences. It found support among Russians for reforms has shrunk from above 40 per cent five years ago to under 25 per cent at the end of last year. The majority of those polled agreed that "privatisation is legalised theft" and between one third and two third of respondents believed that privatisation was "undertaken for the benefit of the nomenclature and criminals".

Enterprises in the coal and oil region of Vorkuta have petitioned for the area to be designated one of "special poverty".



Victor Chernomyrdin: vital to stop unwanted production

## Kemper falls to \$2.4bn bid from GE

By Richard Waters in New York

Kemper, the US investment group, bowed yesterday to an unwanted takeover approach from GE Capital after the General Electric financial services arm increased its offer for the company to \$2.4bn.

GE Capital, which had first offered \$55 a share for the company in March, overcame the resistance of Kemper's board by raising its bid to \$60 a share.

The agreement, announced jointly by the two companies, came just three days before Kemper shareholders were to vote on whether to appoint four GE Capital nominees to their company's board. If approved, this would have put irresistible pressure on the Long Grove, Illinois-based company to agree a sale.

The agreed deal will turn GE Capital into one of the US's biggest fund management groups. Kemper, with operations spanning life insurance, mutual funds and securities broking, had \$67.4bn under management at the end of March.

The agreement follows agitation from Kemper's shareholders for a higher offer than the initial \$55 a share. Although publicly putting their weight behind the board's rejection of the opening GE Capital offer, some of the company's biggest institutional shareholders have hinted that they would be prepared to consider a higher bid.

In an attempt to appease the institutions, Mr David Mathis, Kemper's chairman, last week said the company would poll shareholders a year from now on whether the company should be sold, if its share price had failed to reach \$65 in the meantime.

Yesterday's agreement, though, indicates that this assurance was not enough to overcome the attraction of an immediate sale. Many of Kemper's shares are believed to have passed in recent weeks into the hands of arbitrageurs, who buy shares in the

Continued on Page 16

## 'Chaotic' bank threatens Africa soft loans

By Leslie Crawford, Africa Correspondent

Leading member countries of the African Development Bank say they are holding back the replenishment of the bank's soft-loan fund to demand fundamental changes in the way Africa's premier lending institution conducts its business.

ADB governors say they are alarmed at the findings of a task force of external consultants who recommend a radical shake-up in the ADB's lending policies, projects and personnel.

Their report describes the bank, which receives its money chiefly from leading western industrial countries, as a chaotic, top-heavy bureaucracy, weakened by the impoverishment of the continent it is meant to help, and riddled with political intrigue and suspicion.

The report of the Task Force on Project Quality, chaired by Mr David Knox, a former vice-president of the World Bank, will dominate discussions at the bank's 30th annual general meeting in Nairobi this week.

If not strengthened, [the ADB] may end up by destroying itself. That is the stark choice before the entire Bank community," says the confidential report, a copy of which was obtained by the Financial Times.

Ironically, the task force said it could not assess the quality of the \$27.8bn (£19bn) the ADB has approved in loans over the past 30 years "due to the absence of reliable and sufficient data on completed and active projects".

The task force said it could not find a central file on any single project. "The bank's financial health has begun to suffer from loan defaults and arrears, which have topped \$700m, according to Mr Babacar Ndiaye, the bank's

Report warns that 'bureaucratic' lending institution could destroy itself

Senegalese president. "The bank is being pulled in all directions," says the report. "Management mistrusts the board, and vice-versa."

Almost half of the ADB's loans have been awarded to seven of the bank's 51 borrowing members: Nigeria, Morocco, Egypt, Tunisia, Algeria, Ivory Coast and Zaire.

In private, ADB governors say there is open war between Mr Ndiaye and some north African members of the 18-member executive board. The hostility has hindered policy-making. The task

force says the president "has much authority but no power". It says the problems associated with the bank's governance must be solved. The task force says bank personnel have been unable to keep up with the pace of growth in project lending. Little attention is paid to the quality of loans as opposed to quantity. "The absence of responsibility is fertile

Continued on Page 16  
Leaders gather to see Mandela sworn in, Page 2  
Yemenis drive on Aden, Page 3

## Hungary's former communists take firm grip in election

By Nicholas Denton and  
Christie Freedland in Budapest

Former communists continued their comeback in eastern Europe yesterday by taking a commanding lead in the first round of Hungary's parliamentary elections.

Exit polls gave the Hungarian Socialist party (MSZP) 30 per cent of the nationwide vote, nearly three times their 1990 showing when the electorate delivered a damning verdict on four decades of communist dictatorship. The left appeared to be beating the ruling rightwing Hungarian Democratic Forum (MDF) into a humiliating third place with just 11 per cent of the vote.

Nevertheless, the third force in Hungarian politics, the liberal Alliance of Free Democrats (SZDSZ), enjoyed a surprising last-minute surge with exit polls giving them 20 per cent of the vote.

Foreign investors and the stock market have remained calm in the last few days as a Socialist

victory yesterday and in run-off elections on May 28 has become increasingly likely. The technocratic Socialists are expected to continue or even accelerate economic reform.

The liberal revival, if borne out by official results, would deny the Socialists an outright majority of parliamentary seats and force them to look for partners to form a government, though Socialist technocrats admit they would welcome the liberals' moderating influence and the opportunity to share responsibility for painful economic measures.

Extrapolating from three independent polls yesterday, after the second round of voting, the Socialists could emerge with about 160 of the 386 seats in parliament, around 80 seats would go to the Free Democrats and the conservative MDF would get only 50. This sort of an outcome would make a Socialist-liberal coalition the only feasible government.

The election predictions are based on an average, compiled by the FT, of exit polls conducted by polling organisations Median and Szonda-Ipsos. The Szonda-Ipsos poll was commissioned by the Budapest daily, Magyar Hirlap.

Ideals of right spurned, Page 4

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Austria	Sch22	Oslo	D150	Lux	LF65	Qatar	QF13.00
Bahrain	Dn1.250	Hong Kong	HK\$18	Mexico	MX\$16	Singapore	S\$4.30
Belgium	Bfr40	Hungary	H\$10	Norway	Nkr11.00	South Africa	R12.00
Belarus	Lb10.00	Ireland	Ir\$10	Neth	Fl 4.00	Spain	Pes225
Cyprus	C\$1.10	India	Rs69	Nigeria	Nn200	Sweden	Skr16
Czech Rep	Cz\$50	Israel	Sh\$1.50	Norway	Nkr11.00	Switzerland	Sfr4.30
Dominica	D\$16	Italy	Lira	Oslo	Os\$1.00	Taiwan	T\$20.00
Egypt	E\$10	Japan	Y\$100	Poland	Plz20	Turkey	Lira1.00
Finland	Fmk10	Jordan	J\$1.50	Philippines	Php20	Ukraine	Ukr1.00
France	Ffr40	Kuwait	K\$1.00	Poland	Plz20	Turkey	Lira1.00
Germany	Dm1.00	Latvia	L\$1.00	Portugal	P\$20	UAE	Dh12.00

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## No welcome for observers in Hebron

By Julian O'Zanne in Hebron, occupied West Bank

After little more than an hour into their peace mission to the West Bank town of Hebron, 117 international observers, dressed in bright white uniforms, floppy caps and pin-afors, got an immediate taste of the problems that lie ahead in this flashpoint of Arab-Jewish violence.

The observers, from Italy, Denmark and Norway, sheltered from Palestinian stone-throwers and Israeli soldiers firing teargas.

They are on a three-month mission in an effort to reduce tensions between the Palestinians and armed Jewish settlers in the wake of the mosque-massacre on February 25 of 29 Palestinian worshippers by a Jewish fanatic.

The observers were caught in the middle of an explosion of violence as angry Palestinian youths shouting "settlers out" stoned Israeli buses and soldiers responded firing teargas in the main street.

The observers looked on helplessly, wiping their eyes from the stinging gas.

All the observers are unarmed and under the protection of the Israeli forces.

Palestinians laughed and jeered as the observers scuttled for shelter and turned their cars around from trouble spots. Some shopkeepers offered them broken onions to ease the effects of the teargas which wafted through the air.

"This is an unexpected welcome but we are prepared for our mission," said one Italian observer.

Unwelcomed by Israel, which reluctantly agreed to the deployment, the observers also seem to have little goodwill from Palestinians. Many Arab residents in Hebron, which has been in a state of tension and under curfew since the massacre, said they did not expect the observers to bring much of a change in their lives.

"This is not a solution to our problems," said Mr Abdel Kareem Yaghour. "We don't want international people to



Palestinian policemen camp on the Israeli frontier yesterday after Israel refused to show them into the occupied West Bank, citing technical problems.

interfere with our lives. Thousands of Moslems are being killed in Bosnia, Somalia and the rest of the world and international people do nothing. Look, these men don't even

have guns. What will they do against the settlers and the army?"

Calming hatred between the 110,000 Arabs who live in Hebron and the 5,000 Jewish

settlers will not be easy. Most settlers live in nearby Kiryat Arba but 450 live in the heart of the biblical town which is sacred to both Moslem and Jew.

## Israel stresses role of US as peace mediator

By Julian O'Zanne in Jerusalem

Peace talks between Israel and Syria have reached a new level but will depend entirely on active US mediation, Mr Yossi Beilin, Israeli deputy foreign minister, said yesterday.

In an interview Mr Beilin said Mr Warren Christopher, US secretary of state, would return to the region on Saturday for a diplomatic shuttle mission between Damascus and Jerusalem aimed at advancing the talks over the return to Syria of the Israeli-occupied Golan Heights in return for full peace. It will be Mr Christopher's second Israeli-Syrian shuttle in less than a month.

"I can't see any prospects for peace in the Middle East, especially peace between us and Syria, without the US," said Mr Beilin who visits London on Wednesday.

"It's impossible to have high-level negotiations like we had with Egypt; it's impossible to have a secret channel as we had with the Palestinians and I don't see any other mediator who is ready to take it upon himself."

Mr Beilin, however, said Syria had made positive responses to Israeli proposals during Mr Christopher's last

shuttle which ended last Monday. "For the first time in our history we speak about withdrawal [from the Heights] and Syria speaks about peace. It never happened before and it enables us to find a solution."

According to officials Israel has offered Syria a three-stage withdrawal from the Heights over eight years with each stage accompanied by deepening diplomatic and economic ties and security guarantees. Israeli newspapers also reported yesterday that Israel is asking Washington for \$5bn (£3.35bn) in special US military aid to maintain Israel's strategic advantage over Syria.

Mr Beilin said until Israel reached peace with Syria, Damascus could continue to veto the establishment of official diplomatic ties between Israel and more moderate Arab states in the Gulf and Magreb. Syria could also successfully pressure Arab countries not to lift the Arab economic boycott of the Jewish state.

On the Palestinian peace process Mr Beilin said the next phase - the extension of self-rule from Gaza-Jericho to the rest of the West Bank - would depend on the desire and capability of Palestinians to hold elections, if the Pales-

tinians did not hold elections Israel would merely transfer limited autonomy or "early empowerment" in areas such as health and education.

"It is in our interest to enlarge autonomy in the West Bank and Gaza...but the elections are a Palestinian decision," he said.

However, Mr Beilin, normally a dove on the left wing of the Labour party, ruled out the possibility of evacuating Jewish settlements in Gaza and the West Bank before Israel and the PLO agree a final and permanent status for Palestinian aspirations by 1998. He said the issue of evacuating the 120,000 settlers was a "time-bomb" which should not be faced until permanent solution talks.

"Undoubtedly most of the settlements were built to prevent agreement on the permanent solution and we will have to face this issue over the next five years...but I see evacuation of such a big number of Israelis as a big mistake which may prevent implementation of the permanent solution or make it much more difficult." "Evacuating settlements now," Mr Beilin said, "would be the biggest boomerang to the peace process."

## Yemeni units from north in drive on Aden

By Mark Nicholson in Cairo

South Yemeni forces yesterday appeared locked in fierce fighting to repulse northern units attempting a drive towards Aden, the political and economic capital of the south, in what officials in the south called the "decisive" battle of the intensifying war at the southern tip of the Arabian peninsula.

Military and political officials in the south said at least three southern "brigades" -



President Ali Abdullah Saleh rejected foreign mediation.

each estimated to be anywhere between 500-2,000 men - had been deployed to counter an attempted push towards Aden by the Amaliga brigade, the main North Yemen military unit based at Zinjibar, 20km east of the southern port.

The reports appear to confirm that Mr Ali al-Beldh, vice-president of unified Yemen and political leader of the south, is fighting for his political life against an outright drive by Mr Ali Abdullah Saleh, unified Yemen's president and leader of the north, to evict him from power and reassert the country's disintegrating four-year-old unity by force.

North and South Yemen formally unified in 1990, but relations between the two leaders

collapsed last year after the state's first multi-party elections, when Mr al-Beldh claimed southerners were politically marginalised. However, the two armies were never themselves unified, and pockets of fighting in north and south result from symbolic redeployment of northern units in the south and vice versa.

Over the weekend, military officials in Sanaa claimed that five Scud missiles had been launched at targets in the north, all apparently landing without causing damage. Evacuees from Aden who had arrived in Djibouti yesterday, meanwhile, confirmed that Northern jets had bombed Aden airport and power and water installations, but said that damage appeared limited.

By yesterday, however, the focus of fighting appeared firmly to the north and east of Aden. Witnesses quoted by the Reuters news agency spoke of 30 southern military aircraft leaving Aden airport apparently heading for bombing raids in the province of Abyan, to the north-east of Aden. Evacuees from Aden said heavy shelling and bombing could be heard from the east for the past three days. They said there was no evidence of fighting in Aden itself.

Southern officials claimed that North Yemeni units had been defeated in a second push towards Aden from the north, at Lahj and Daleah, along the main routes into the city. "We are in a defensive position, but the northern army is not making progress," said a spokesman for the Yemen Socialist Party of Mr al-Beldh in Aden.

Independent assessment of rival claims after more than five days fighting in Yemen's civil war again proved impossible yesterday as communications with Sanaa, the Yemeni capital in the north, and Aden, proved patchy at best.

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## NEWS: INTERNATIONAL

## Ideals of Hungary right spurned

Chrystia Freeland and Nicholas Denton explain socialists' poll success

Hungarians joke that the right has achieved in four years what the communists failed to pull off in 40. Make socialism popular.

On one level, the socialist revival is part of a wider eastern European tendency. Like their neighbours in Poland and Lithuania, Hungarian voters are venting their bitterness at the pain of the transition from communism to a market economy by rejecting the parties which ushered in the change in 1990.

"Partly, it is a general eastern European phenomenon," explained Mr Ivan Lipovec, editor of *hvg*, Hungary's influential political and business weekly. "The first reform generation has to be punished for the property which the economic transition has not yet produced."

But in Hungary, voters also appear to be rejecting the conservatives' vision of Hungary's future, which bears a resemblance to the inter-war past. The ruling conservative coalition of the Hungarian Democratic Forum and the Christian Democrats has tried to make the sharpest break with the past - even pursuing "war crimes" trials of those who crushed the 1956 uprising - of any post-communist government in the region.



A young Hungarian boy casts his grandmother's vote in the elections yesterday

"The government has tried to create an atavistic Hungary," says Mr Viktor Folgar, who, as campaign manager for the socialists in Budapest expects to profit handsomely from the electorate's lack of enthusiasm for this effort. "But history is what it is - history. You cannot recreate the past."

Alongside the effort to bring back the halcyon inter-war past, Hungary's ruling conservatives have sought to wipe out all traces of the communist period. "It is partly each individual's own past which is being dragged in the mud and I think many voters are reacting against that," said Mr Andras

Simor, managing director of Creditanstalt Securities, the Hungarian branch of the Austrian investment bank.

In its efforts to remould the Hungarian nation in its own image, the government has tried to use the media to reshape the national soul. The government has purged sus-

pected left-wingers, recently sacking 129 radio journalists, among them prominent broadcasters, and the conservatives at the television station have done the government's negative campaigning for it.

But the crude pro-government propaganda has backfired, alienating many voters, who had their fill of media distortion under the communist regime. Moreover, attacks against liberals and leftists in the media have distracted the government from the economic issues on which the election hinges.

Lack of attention to economic issues has reinforced the conservatives' image as a collection of historians, poets and writers who should stick to their original professions.

The irony is that it is the conservatives who are paying the political price of the pain of economic transition, and the socialists, who were responsible for the communist system in the first place, who could reap the political benefits of the market-driven economic recovery which has already begun.

The conservatives were out of power for a generation; they may have condemned themselves to another long spell in the wilderness.

## Serbs have faith in their new saviour

Mr Dragoslav Avramovic, governor of the Yugoslav National bank, crowed that his economic programme had virtually defeated sanctions, after he managed to reduce inflation from 300,000 to zero per cent overnight.

At a recent dinner in Belgrade, Mr Avramovic said economic expansion was under way despite nearly two years of UN sanctions, which include an oil embargo.

Across the table, Mr Vladislav Jovanovic, the foreign minister of Yugoslavia, appealed for the lifting of the crippling sanctions, which he said, repeating a common official refrain, were "unjust and genocidal".

The contradictory statements reveal the collision of two political roles. Mr Jovanovic tries to convince his foreign colleagues that peace cannot be won without lifting sanctions, while Mr Avramovic, who is believed to be in his late 70s, is responsible for boosting public confidence in the new Yugoslav dinar, which is pegged at one-to-one with the D-Mark, and the rebirth of the Serbian economy.

In fact, people seem to believe in Mr Avramovic, Serbia's newest saviour.

In Belgrade, people thank him because they no longer have to count out billions of dinars to buy a loaf of bread. Their monthly wage has risen from DM30 (£12) to DM100. Goods have returned to store shelves. Even though petrol costs DM3 a litre, there are more cars on the streets than at any time since sanctions, imposed on Belgrade for the violent partition of Bosnia.

The 10m inhabitants of Yugoslavia have breathed a sigh of relief that they no longer have to race against hyperinflation.

"We have actually overcome the blockade. Yugoslavia can no longer be blacklisted with sanctions, the problem of sanctions and blockade is now secondary," said the ebullient Mr Avramovic, a former employee of the World Bank, in a recent interview.

But gloomy Belgrade economists and businessmen say the sanctions and the price of nearly three years of waging war have devastated the Yugoslav economy. They fear that economic recovery cannot be sustained without lifting sanctions and foreign loans. They trade predictions on when the programme will collapse.

The ebullient Mr Avramovic says production was expected to grow by 30 per cent in April in relation to the month before. It grew by 24 per cent in March, according to official statistics.

## NEWS IN BRIEF

## Russian premier sacks minister

By Layla Boulton in Moscow

Russian prime minister Viktor Chernomyrdin has sacked a deputy privatisation minister in an attempt to fend off accusations that he is moving too slowly and ineffectively on economic reform.

Mr Vladimir Kvasov, the prime minister's chief of staff, revealed in a newspaper interview that Mr Valentin Sytkin, deputy chairman of the Committee for State Property, was fired for failing to provide office space for unspecified officials. Mr Dmitry Vasiliev, another deputy privatisation minister and a driving force behind a mass sell-off of state assets, would be sacked next week for not submitting a new privatisation plan for later this year, he said.

The criticisms are part of a series of attacks from Mr Chernomyrdin on three ministers whose top staff are still closely identified with radical leaders forced out of office last winter.

Infuriating the men in question, Mr Kvasov made public the fact that Mr Sergei Alexashenko, deputy finance minister responsible for the budget, and Mr Yakov Urinson, a deputy economics minister, had been scolded for not meeting deadlines on issues such as the distribution of state investment credits.

He said that the ministers of economics, finance and privatisation had been given a week to "put their departments in order".

## Austrian bank retrieves funds

Austria's trade union bank, Bank für Arbeit und Wirtschaft (Bawag) says it has repatriated without loss all the funds placed through Caribbean-based companies controlled by the son of the bank's chairman, Patrick Blum reports from Vienna.

The news came as a relief to bank supervisors who feared Bawag might have ended up losing large amounts of money as a result of these transactions, whose recent discovery has led to heated public debate about the bank and Mr Walter Föllmi, its chairman.

Mr Föllmi admitted last week that he had authorised loans worth up to \$2.1bn (£1.1bn) to Caribbean-based offshore companies controlled by his son Wolfgang.

## Italy wins sugar refinery deal

Savola Company of Saudi Arabia said yesterday it had awarded Italy's TPL (Tecnologie Progettati Lavori SpA) a contract to build a sugar refinery worth \$173m (£116.4m). Reuters reports from Manama.

The refinery, which will be the biggest in the Middle East, will be built in Jeddah port on the Red Sea.

It will have an annual capacity of 500,000 tonnes of sugar and 20,000 tonnes of molasses. In earlier statements Savola has estimated the refinery would cost around \$850m (£114.3m). Two Italian companies - TPL and Technimont Gruppo Ferruzzi - and Taylor Woodrow of the UK had competed for the contract.

## Swedish party backs EU

Sweden's Centre party yesterday voted to support the country's application to join the European Union, averting a potential crisis in the four-party coalition government, writes Christopher Brown-Humes from Stockholm.

The vote ended the coalition to present a united front on the issue in the run-up to September's general election and a national referendum on EU membership on November 13. The Centre's backing for membership came following a two-day debate. The margin in favour was 184 votes to 92.

## Kravchuk hopes for aid package

Ukrainian President Leonid Kravchuk hopes a special aid package for his country's energy industry can be approved at a Group of Seven industrial nations summit in Italy in July, the Spanish daily *El Pais* reported yesterday. Reuters reports from Madrid. "It's difficult to say what sum we are talking about but if we were given real aid of between \$5bn (£3.4bn) and \$8bn we would be able to manage the range of possibilities open to us quite well and not only in energy," Mr Kravchuk said.

## Berlusconi allies hold up deal on Italian cabinet

By Robert Graham from Rome

Six weeks after Italy's general elections, media magnate Mr Silvio Berlusconi is still facing problems completing a cabinet list that satisfies his own requirements and the individual demands of his allies in the Freedom Alliance.

The battle over the various cabinet portfolios has revealed the wide differences between the demands of the Northern League which needs to retain a separate identity from Forza Italia and from the neo-fascists. It has also shown that Mr Berlusconi has found it far more difficult than he expected to produce a government team and a coherent programme since his landslide victory in the general elections of March 27-28.

The main point of contention has been the post of interior minister - which the populist Northern League of Mr Umberto Bossi has claimed as the largest party in parliament. It appeared agreement had been reached last Thursday on an independent candidate for the portfolio which controls the administrative apparatus

and the security services.

This agreement fell apart at the weekend because the compromise candidate declined to accept the post. The job was offered, for the second time, to Mr Antonio Di Pietro, Italy's best known anti-corruption magistrate. However he politely refused the offer, complicating the choice of a successor.

If the agreement on the interior portfolio between Mr Berlusconi's Forza Italia and Mr Bossi and the neo-fascist MSI/National Alliance is to hold, the post will have to be given to an independent figure, probably a senior judge.

However, the continuing problems over the interior Ministry underline the difficult balance of interests within the Freedom Alliance.

Mr Berlusconi had hoped to finalise the cabinet last week. He is under strong pressure to present his list of ministers at the latest by Tuesday so that parliament can rapidly confer a vote of confidence on Italy's 53rd post-war government and the programme of the right-wing government.

## French to urge Airbus challenge to US jumbo

By Paul Betts, Aerospace Correspondent, in Nice

Aérospatiale of France will press its European Airbus partners to step up marketing and development efforts of a new 500-550 seat large Airbus airliner - the A3XX - to challenge the monopoly of the US Boeing company in the jumbo aircraft market.

The move reflects concern over Boeing's plans to develop a larger version of its Boeing 747-400 jumbo with a new wing to consolidate its dominance of the big aircraft market.

Although the four Airbus partners - Aérospatiale, Deutsche Aerospace, British Aerospace and CASA of Spain - have been involved for the past two years in joint studies with Boeing of the development of a very large aircraft, Aérospatiale is worried that Boeing is moving to develop a bigger version of the 747.

"We must give Boeing the strongest possible signal that Airbus will develop its own jumbo if Boeing decided to go it alone with a bigger 747," said Mr Louis Gallois, the Aérospatiale chairman.

Airbus has been using the joint studies on a super jumbo

programme with the Europeans as a device to delay Airbus' own efforts to compete against its monopoly of the jumbo market while it continued to study a bigger version of the 747. Airbus, however, has also continued to pursue studies of a 500-550 seater airliner. "These preliminary studies on the A3XX jumbo will be completed in the next few weeks," said Mr Claude Terrazoni, head of Aérospatiale's civil aircraft division.

Mr Terrazoni said Aérospatiale estimated the cost of developing the A3XX, a double deck jumbo airliner, at around \$8bn. This compares with \$6bn the Airbus partners spent on the development of the A330-A340 family of 350-seat wide-bodied aircraft which have recently entered service.

Although only two airlines, British Airways and Singapore Airlines, have so far shown interest in a super jumbo aircraft, Mr Terrazoni expected demand for around 500 very large capacity airliners costing between \$200m and \$300m each to emerge within 20 years.

Aircraft with over 400 seats will account for over 40 per cent of the value of the civil aircraft market in the next 20 years and Airbus simply can-

not afford not to be part of that market," he stressed.

While continuing their joint studies, each side is now striving to position itself ahead of the other to launch its own super jumbo programmes. This issue is expected to weigh heavily in the revival of negotiations in Geneva on May 19 on a new civil aircraft subsidy code under the General Agreement on Tariffs and Trade.

The talks were suspended at the end of last year when it was decided to try to reach accord on a Gatt civil aircraft code by the end of this year. But the Europeans fear the US has little interest in negotiating such an agreement, preferring to see the civil aircraft sector fall into the general Gatt subsidy code.

This reflects differences in which the US and European aircraft industries are subsidised. European manufacturers rely on direct refundable loan support from their governments while the US industry benefits from indirect research and development support from government agencies. In 1982 the US and the then European Community agreed to limit direct support to 35 per cent of development costs of new aircraft programmes.

## INTERNATIONAL PRESS REVIEW

## Dutch press cool on poll glitz

## NETHERLANDS

By Ronald van de Krol

In the eyes of the Dutch press, the staid, stodgy world of Dutch politics has been engulfed by a tide of "Americanisation". The proof, this theory goes, is the campaign waged in last week's general election.

The evidence is largely circumstantial but undeniable. Compared with the studiously low-key campaigns of previous elections, the 1994 poll was a veritable razzamatazz of sound bites, photo opportunities and competing personalities.

The glitziest campaign - by Dutch standards - was waged by the Christian Democrats, who also happened to suffer the greatest defeat. Mr Elco Brinkman, trying to step into the shoes of Mr Ruud Lubbers, the outgoing prime minister, used tactics which his advisers had borrowed partly from the US and Britain.

Mr Brinkman's whirlwind tour of the country was made in a campaign bus bristling with the latest in mobile communications and fax machines. Rather than standing stiffly by lecterns during speeches, he was hooked up to a mobile microphone which allowed him to roam the stage in what became known as the "Brinkman shuffle". And, like Mr Bill Clinton appearing on "Larry King Live" programme during the US campaign, Mr Brinkman chose to play the "soft" media, giving interviews to women's magazines and undergoing questioning from a popular comedian.

His rival in the Labour party, Mr Wim Kok, also

waged a highly personalised campaign. His face stared out from election posters stating "Choose Kok", with little or no mention made of the unpopular party he represents.

This style of campaigning came in for criticism in the earnest Dutch press, which produces newspapers of various political persuasions, but not a single tabloid or sensationalist title.

But the morning after the election, Dutch politics was back to normal with a vengeance, with attention firmly turned back to excruciatingly intricate speculation about the composition of the next coalition.

Elections in the Netherlands do not produce winners and losers even at the best of the times. But this year's result

was spectacularly inconclusive, with the two biggest parties losing ground to two smaller "swing" parties, the right-wing Liberals (VVD) and the left-of-centre D66.

The erstwhile coalition partners, Mr Brinkman's Christian Democrats (CDA) and Mr Kok's Labour party (PvdA), lost their majority. This means that a coalition of three parties will have to be formed from the four main parties. And this has led in the press to the "alphabet soup" speculation so beloved of political columnists and leader writers.

Will the next government be a CDA-PvdA-D66 cabinet; a coalition of strange bedfellows like PvdA-VVD-D66; or would Labour be forced into opposition by a CDA-D66-VVD grouping? What about the option of

Liberal and left-of-centre D66, made strong gains. Several combinations of three parties are possible, but at least three parties will be needed to create a majority in parliament.

Mr Tjeenk Willink's first task is to find out whether it will be possible to form a left-right coalition of Labour, D66 and the Liberals. This coalition, described as the "purple" option because it would span the red of Labour to the "Tory" blue of the Liberals, would force the Christian Democrats into opposition for the first time. The Christian Democrats, who traditionally dominate Dutch politics, support the idea of investigating the "purple" option first.

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taking on board the two new pensioners' parties that had come from nowhere to capture seven seats?

Summing up the situation, the financial daily *Het Financieel Dagblad* concluded that "a long and bloody" period of coalition negotiations lay ahead.

Other newspapers agreed that no firm conclusions could be drawn on who would be the next prime minister, or even who would be included in the next cabinet.

At the daily *De Telegraaf* in Amsterdam, columnist Kees Lubbock reminded readers that Labour could make no automatic claims to anything, even though it had narrowly emerged from the fragmented balloting as the largest party. "There is no written rule that the PvdA must take part in government because it is the biggest," he wrote.

In Rotterdam, the *NRC Handelsblad* cautioned in a leader that it was too early to write off the Christian Democrats as coalition members, despite their record losses at the polls. "It would not be the first time in Dutch political history that the loser of an election walks away victoriously from the cabinet formation," it said.

In the absence of any real progress in forming the next coalition, speculation like this fills column after column in the newspapers. Perhaps it is a good idea for newspaper readers, as well as newspaper writers, to start getting used to these minute examinations of coalition tactics after the 1977 election, for instance, it took no less than 208 days for the Netherlands to come up with a government coalition.

DON'T CRACK UNDER PRESSURE

TAG Heuer

Financial Times writers look at the pitfalls and rewards which could await foreign construction workers in Germany

## Finland, Sweden join peace alliance

By Bruce Clark in London

An important new link in the security structure of post-Cold War Europe will be set in place today as Sweden and Finland, moving away from their long-standing neutrality, join the Partnership for Peace devised by Nato.

At the same time, the Western European Union is expected to upgrade links with nine former communist nations as well as drawing Turkey, Norway and Iceland more closely into its embryonic efforts at military planning.

The moves come at a time of mounting uncertainty over the intentions of Russia towards both Nato and the three Baltic republics, which are among the nine nations that the WEU will elevate into associate partners.

While it still operates in the shadow of Nato, the WEU is expected to grow in importance as the US scales down its involvement in Europe.

Moscow stated last week that, in matters of co-operation with the Atlantic alliance, it insists on having a role in drawing up the menu, as opposed to selecting dishes that have already been cooked at Nato headquarters. General Pavel Grachev, the defence minister, also sent shudders down Baltic spines by hinting that the Russian garrison in Rostov, whose withdrawal has been promised by August 31, might actually be reinforced.

Unlike the 15 members of the former Eastern bloc which have become "partners for peace," the two Nordic states that sign up are expected to be givers rather than takers of military expertise. Both Sweden and Finland have already been lending a discreet hand to efforts by the Baltic states to build up defence forces.

Moscow's effort to influence the Partnership from within will be aided by the fact that it remains a fluid arrangement.

Only 10 days ago the Partnership received a provisional headquarters, in the shape of a modest green building at Mons, near Brussels, previously used for planning the reinforcement of Berlin in the event of an East-West crisis. Of the 15 former communist states that have signed up to the Partnership, only Poland is certain to assign officers to the Mons premises. Even they cannot take up their duties until Belgium clarifies their legal status.

Two, and possibly three, war games within the framework of the Partnership should take place this year, including one naval exercise, and an exercise in the Netherlands that will focus on peace-keeping. But participants have yet to be announced. The emphasis on peace-keeping is one of the reasons why Russia does not want to be left out. Russia remains hungry for international approval of its "peace-keeping" activity on its borders.

Moscow's aspirations include Russia's acceptance as a full partner in Nato's deliberations on Bosnia; Russian participation in other forms of co-operation between the top western nations, such as the Group of Seven; an upward revision of the troop numbers Russia is allowed by the treaty on Conventional Forces in Europe; and a veto on the elevation of other Partnership members to full membership of Nato.

## Big wages mask big risks

By Andrew Taylor, Construction Correspondent

'Bricklayers wanted for contracts in Germany; excellent rates offered; immediate start'

Advertisements in British national newspapers continue to lure construction workers with the promise of high wages on German building sites.

The advertisement above was one of more than half a dozen job offers which appeared on a single day last week in Britain's Sun newspaper.

Some British builders unable to find work in the UK have made money working in Germany. For others the dream of finding a job abroad has become a nightmare as they have been left destitute and cheated by unscrupulous labour agencies and employers.

The UK Building Employers Confederation issued a report last week highlighting the plight of stranded and destitute construction workers in Germany. In one month this year British consulates in Germany made arrangements to ship home 150 construction workers in distress according to the foreign office. These were only the workers who could find relatives and friends who would pay for their fares home.

Many had replied to advertisements from labour agencies with telephone numbers in Belgium and Dutch towns, such as Nijmegen and Arnhem close to the German border. Most of these would be illegal in Germany under the country's strict labour laws, according to the British Building Employers Confederation.

Interviews rarely took place in offices but in public places such as bars. One London construction worker found it strange when he was interviewed in an otherwise empty building.

He later realised the furniture was only temporary.

Mrs Elizabeth Bridge, the confederation's director of taxation, toured London building sites to question workers recently returned from Germany. She became concerned after workers requested information on how to reclaim German tax paid on wages. They had been duped into accepting

lower wages on the false grounds that UK authorities would repay the tax.

One scaffolder who answered an advertisement in the Sun paid his own way to a hotel in Frankfurt on the promise of a job in Dresden. He waited three days with about 50 other workers but his potential employer never arrived. The scaffolder was left with a £400 bill and the agents could not be traced.

A 19-year-old construction worker replied to an advertisement in the London Evening Standard placed by a Belgian agency.

He was taken to a car park development in Germany where he spent four weeks grinding the surface of bricks. He was not supplied with a mask as required under German and British safety laws.

After three weeks he had been advanced only £30. When he complained at the end of the fourth week he was dismissed. Another worker with experience but no formal qualifications was persuaded by an agency to accept a job in eastern Germany.

When he arrived the contractor refused to engage him. He was left without job and money.

To enable German employers to avoid paying national insur-

ance, British construction workers must hold an E101 certificate from the UK government exempting them from making social security payments in the "host country".

British rules allowing workers to qualify for E101 certificates were tightened last month to apply to only those "who are normally self-employed in the UK". This is unlikely to stem cross-border work as more than two-thirds of UK construction workers are estimated to be registered as self-employed.

One agency advertising for bricklayers in a British newspaper offered to arrange E101 certificates. According to the British confederation, builders planning to work in Germany should check whether agencies are bona fide offices and offers of work should be in writing and checked in advance.

Workers also should check whether they are required to register as living in Germany. If the answer is negative they should not go as they will be working outside the law and will have no protection, said the confederation. Most important of all, workers should leave enough money for return fares with a reliable friend or family as British consulates do not provide money for fares home.

## Mixed attitudes to the magnet of Germany

By Judy Dempsey in Berlin

Janusz R, a carpenter, has it all worked out.

He lives in the Polish town of Miedzyrzecz, not far from the German border. "I'm far better off going over to Berlin every couple of weeks. I stay with my cousin. And I earn lots of money on the building sites. Then I can go home, buy building materials, and can afford to take off time to build my own house with my German savings."

Janusz is just one of the many thousands of Poles, Irish, Turks and Portuguese who are helping to rebuild Berlin. "Everybody talks about the unemployment in east Berlin and in east Germany. But these east Germans just don't want to get their hands dirty," said Mr Wolfgang Köhrich, a supervisor of a building site in east Berlin's Mitte, once the heart of Berlin before the second world war and now a prime development area for shopping and office complexes.

Mr Köhrich, however, has few complaints about his foreign workers. "They work in all kinds of weather. We don't have to pay

them had weather money," he said. "And my foreign men work at least 60 hours a week. None of this seven-hour-a-day nonsense. And they don't drink on the site either, unlike some Germans who have the beer bottle open by 8am," he continued.

Yet some foreign workers, such as Mr Vincent Kelly who arrived from Ireland several months ago, complain about wages. "There's no work at home. So I am lucky to get work here. But when I compare what I earn to a German, it really makes me angry," he said.

Mr Kelly says he earns DM25 an hour before tax. "But the Germans earn DM36 - and that's the minimum paid to an unskilled worker, if such a thing exists among the Germans. After all the tax is deducted, I take home about DM13 an hour while they get DM24. It's not fair."

Mr Köhrich admits he pays his foreign workers at least a third, if not a 50 per cent, less than his German crew.

A hundred yards down the street, a team of 200 workers were hard at work; there was hardly a German on the site.

"Half of us are Portuguese. The other half is Polish," said one. "We do the excavation work, the Poles do a lot of the scaffolding. The wages vary. What would you expect?"

But the Association for the German Construction Industry is furious about the number of foreigners working in the building sites throughout eastern Germany.

"Some local councils, city authorities, and building firms are contracting out to foreign companies because they can do things more cheaply," said Mr Helko Stiepelmann, the association's spokesman. "This means competition. This could affect the wage levels in the industry."

Janusz laughed when he heard this. "And show me a site which only has German workers," he quipped.

"These Germans are just too over-qualified, or else they get paid too much when they are out of a job. I think that's the reason why there is a shortage of construction workers," he said. "I don't know what the association is complaining about. They get us cheaply. The work gets done. So they should stop grumbling."

## Thuringia in public funds scandal

By Judy Dempsey

The eastern German state of Thuringia has been accused of persistent misappropriation of public funds and abuse of office by Der Spiegel and Wochenpost, two German weeklies.

If confirmed, the allegations, which appear to be substantiated by the state Audit Office, could damage Chancellor Helmut Kohl's election chances in eastern Germany just as his governing Christian Democratic Union is trying to claw back support. Thuringia is governed by a CDU/Free Democrats coalition, led by Mr Bernhard Vogel, a west German and a close ally of the Chancellor.

The allegations coincide with the start of the election campaign in Thuringia, which faces a local government poll on June 12, and state elections and federal elections next October. Opinion polls give the CDU-led coalition less than 25 per cent of the vote in the five eastern states.

The allegations touch several ministers. In one case, the government sold a state-owned clinic to a west German company for DM7.6m (£3m) although Wochenpost alleges the real market value exceeded DM42m.

The scandals are expected to be greeted with cynicism in Thuringia which has endured an unemployment rate above 18 per cent. They also reflect the unstable nature of the state's government. Since late 1990, 25 senior officials have either resigned or changed office. These include one prime minister, five ministers, eight state secretaries, three police chiefs, and eight regional councillors.

### CONTRACTS & TENDERS

#### PROCUREMENT OF CONSULTING SERVICES FOR THE REFORM OF THE TELECOMMUNICATIONS SECTOR IN ECUADOR

THE GOVERNMENT OF ECUADOR has initiated the process of modernising the telecommunications sector and its main telecommunications state enterprise EMETEL, under a reform program which is receiving financing from the World Bank. The Government is seeking expressions of interest and brief Statement of Qualifications from consortiums of legal, technical, accounting, and investment banking firms and promotion firms with experience in the design and establishment of a legal and regulatory framework promoting private participation in the sector, including long-term concessions.

THE REFORM PROGRAM will be implemented by the National Council for the Modernisation of the State (CONAM) in coordination with EMETEL. It would involve private sector participation in the operations and investments of the Ecuadorian telephone network to be divided into two Regions.

INTERESTED CONSORTIUMS ARE REQUESTED to send, through a sole representative, any readily available information demonstrating legal, regulatory and private participation experience in the sector of telecommunications. Please send Statement of Qualifications in English or Spanish, including Curricula Vitae of staff that could be assigned in Ecuador and client references of recently completed projects to the address below prior to May 31, 1994.

Mr MARCEL LANIADO DE WIND  
NATIONAL COUNCIL FOR THE  
MODERNISATION OF THE STATE  
JUAN LEON MERA, 130, 9th Floor  
QUITO, ECUADOR  
FAX: (5932) 509-437



Don't let the boyish grin fool you. Beneath is arguably the sharpest business mind east or west of the Mississippi. A self-made billionaire at 44. But money's not the story. It's about building. Creating the nation's largest cellular network service through a series of daring strategic moves. Piece by piece. It's about playing David before all the Goliaths. Grace under pressure. Betting the farm. And smiling through it all. Craig McCaw, CEO McCaw Cellular, is just one of over 857,000 top American executives who read Forbes.

**Forbes**  
CAPITALIST TOOL

Source: Money magazine, Money Research, 1993.

## NEWS: UK

# Row over allocation of EU training funds

By Paul Chesserwright and John Wilman

The British government is refusing to submit plans for spending £520m of European Union funds available to the UK for retraining workers in industries undergoing structural change, such as the motor industry.

Ministers believe that the money would be better spent on training for the unemployed and that employee training is the responsibility of employers.

But the decision has caused dismay among local authorities, motor industry companies and training and enterprise councils in areas of industrial change such as the Midlands.

"When funding is already there and we're turning our back on it, it is extremely frustrating," said Mr John Hawkesby, a Bedfordshire Conservative councillor who is chairman of the all-party Motor Industry Local Authority Network (MILAN). "This organisation brings together local authorities that have a strong local interest in the motor industry."

The money is the so-called

Objective Four funding, which can be spent over the next five years. Although the money comes from Brussels, national governments administer it and must give the European Commission details of their spending plans. This, the UK government has refused to do for 1995-96.

"We believe that the money could be better used in helping the unemployed under Objective Three of the structural funds which provides training for the unemployed," the Department of Employment said last week.

Any money spent on Objective Four funding comes out of the budget for Objective Three. By not applying for Objective Four funds, the government hopes to maintain current levels of EU funding for unemployment programmes.

However, Mr Rodney Skidmore, chief executive of Central England Training and Enterprise Council, says withholding Objective Four funds is making it harder for TECs to assist in retraining local labour forces.

EU funds are being used for retraining in France and Ger-

many. Mr Christopher Firth, director of MILAN, fears the current competitive advantage enjoyed by the UK in motor manufacturing will be eroded.

"We all know how mobile the motor industry is," he said.

Several motor industry groups such as Ford, Vauxhall, Unipart and Rover want to tap Objective Four funding. Rover, which is spending £35m a year on training, says that it has received no European funding.

Trade unions could frustrate employers' opposition to the Europe-wide workers' councils proposed by Brussels, a labour leader said yesterday.

Mr John Edmonds, general secretary of the GMB union, said employers who held out would be taken to court.

"If any European company says... the works councils will not operate in Britain, then we have a very strong legal case," he told BBC television.

The new councils would come into force under a European Commission directive which requires businesses operating in more than one EU country to set up Europe-wide committees to involve and consult all their employees.



British Telecommunications hoisted a dish aerial at the weekend to carry their first satellite uplink site to France. The uplink was installed at BT's Eurocenter, La Defense, Paris. The new facility will be used to provide satellite networks for customers such as Groupe Azur, the large French insurance group, which chose BT's technology in the face of keen competition.

## Britain in brief



### Warning on city-centre regeneration

Mr John Gummer, the UK environment secretary, will reinforce his commitment to revitalising Britain's town centres tomorrow with a report which warns that property owners and financial institutions must invest in cities or risk them becoming US-style "ghost towns".

The report warns that UK cities face a choice between the North American example, where retailing has been sucked out of many town centres, and the continental European model, where high population density, good transport facilities and attractive streets have kept city centres popular.

It stresses the need for property owners and investors, including insurance companies, banks and building societies, to play a part in regenerating urban centres.

If that is not achieved voluntarily, it suggests, the only solution might be US-style business development districts, where property owners must pay a local levy to fund town-centre promotion and improvements in the urban environment.

### Ex-Tory voters want Major out

The majority of ex-Conservative voters want Mr John Major to resign, according to a Gallup opinion poll conducted for the BBC.

In a poll of 888 people who voted Tory in the 1992 general election but said they would not or were not inclined to vote Tory if there was a general election tomorrow, 58 per cent said Mr Major should resign. Only 34 per cent said he should carry on.

Among this group of voters the Conservatives are less trusted on tax than Labour, the poll found. Eighty-eight per cent said they would not believe a Conservative politician talking about taxes, while 82 per cent would not trust a Labour politician on the subject.

Mr Michael Heseltine was the preferred choice to replace Mr Major, with 34 per cent of these former Tory voters saying they would vote Conservative if he was leader.

### Car dealerships expand rapidly

Significant changes are under way in the structure and ownership of franchised car dealership networks in the UK with large groups expanding rapidly at the expense of individually-owned dealerships.

The main groups such as Lax Service and Inchcape now own more than a third of the 7,000-plus franchised dealerships compared with just a quarter in 1990, according to Sewells International, the motor-trade monitoring group.

Some of these groups are also beating down manufacturer resistance to "multi-franchising" - selling more than one make from a single site - and leading the expansion of UK car retailing methods into continental Europe by buying dealerships in other EU countries.

### New head for Manchester

Manchester Business School will today name Professor John Arnold as its new director.

Prof Arnold is currently pro-vice chancellor of Manchester University and its KPMG Peat Marwick Professor of Accounting. He takes up the post on September 1.

## Post Office chief in privatisation talks

By Roland Rudd

Mr Bill Cockburn, chief executive of the Post Office, has held detailed talks with a senior team from SG Warburg about how best to privatise the corporation.

The talks are the furthest yet the corporation has gone in pursuing privatisation. Senior executives are keen to push ahead with plans for a partial privatisation of the Post Office even though the government is yet to announce the results of a review of the Post Office's future.

Mr Cockburn said: "If the government decides to privatise the Post Office all the indications we have are that investors looking at our business and our track record find it a very attractive proposition. Warburgs are confirming this."

However, Mr Michael Heseltine, trade and industry secretary, has said there is a strong case for privatising the Royal Mail, but has conceded that political issues make it difficult to do so.

Mr Cockburn, while careful not to call publicly for privatisation, wants the government to act speedily if it has decided to sell it off.

Following his talks with Warburg he yesterday said his preferred method of privatisation was to float off the Royal Mail along with parcels, which the government is already committed to selling.

"If the government want to privatise the Post Office, it makes best commercial sense to keep the Royal Mail and parcels together as one company. No other post office has hived off its parcels division."

Mr Cockburn feels that the Post Office's public obligation to provide a parcel service through the country, in contrast to its 4,000 privately-owned competitors, gives it a natural fit with letters.

He believes the interest shown in any UK postal sale from institutional shareholders taking part in the sale of Dutch post office may encourage ministers to act on the recommendations of their review which favoured privatisation.

However, Mr Cockburn warned that in the event of privatisation the government would have to be careful not to over-regulate the business which could depress profits and the share price of a private post office.

Hoare Govett, the UK stockbroker owned by ABN-Amro, which is the

global co-ordinator in the privatisation of the Dutch telecom and post group, has reported similar strong interest from investors.

Mr Nick Varey, deputy chairman of Warburg Securities, is expected to explain his methods of privatising the UK post office when he speaks at a Westminster and City conference on the subject next month.

The UK merchant bank also reported significant interest in any UK postal flotation from institutional shareholders taking part in the privatisation of Koninklijke PTT Nederland, the state-owned Dutch telecom and postal group.

Warburg is the lead UK regional manager in the Dutch postal privatisation due to take place next month.

## Investment trusts to target US market

By Bethan Hutton

Representatives of the UK investment trust industry arrive in the US today to press for legislative changes that would allow investment trust shares to be sold to US investors.

A delegation from the Association of Investment Trust Companies will be lobbying for changes to a protectionist law of 1940 which makes it almost impossible for shares in foreign investment companies to be sold in the US.

The law effectively requires foreign investment companies to operate as US companies, under US regulation. Only 19 have ever managed to comply, all of them Canadian.

Unsuccessful attempts have been made in the past to overcome the obstacle. Mr Ernest Fenton, the association's director-general, said there were signs that the new administration was more amenable to dismantling protectionist barriers.

A possible solution is for US authorities to recognise UK regulation as being an equivalent standard to the US, without requiring compliance with exactly the same rules.

Mr Patrick Gifford, chairman of Fleming Investment Management and a member of the association's delegation, said that expanding into the US market would not only give UK investment trusts a wider potential investor base but might also make it feasible to launch new funds for which the UK market alone would not provide sufficient demand.

Mr Fenton said one attraction of UK investment trusts for US investors was that while many US closed-end funds trade at substantial premiums to asset value, UK funds normally trade at discounts or very small premiums. Additionally, UK investment houses could offer greater expertise in certain specialist areas than their US counterparts.

Even without changes to the 1940 act, it is possible that investment trusts could issue American Depositary Receipts which are traded like shares on US stock exchanges. However, these could only be bought by qualified institutional buyers, not private individuals.

## Record companies upbeat over CD price probe

By Michael Skapinker, Leisure Industries Correspondent

Record companies are increasingly confident they will be cleared by the Monopolies and Mergers Commission of charging excessive prices for compact discs but say they are still unsure whether leading music retailers' large market share will be criticised.

The commission's report on the music industry, launched last year, was sent to the Department of Trade and Industry last month. The DTI said yesterday that recent reports on the outcome of the inquiry were "speculation".

Music companies say they have still not seen the commission's report. Record industry executives say, however, that the tenor of their correspondence and meetings with the commission has led them to conclude that the inquiry had moved away from the CD pricing question to the issue of music retailing.

The Commons national heritage committee report last year criticised music producers and

record retailers for charging too much for CDs. It said music companies had failed to justify the difference in the prices they charged UK and US dealers for CDs.

The price difference on full-price discs was between £1.50 and £2. The committee was even more critical of the industry for charging dealers £2.50 more for compact discs than for cassettes.

Music companies say, however, that they expect the commission to accept that many consumer products are more expensive in the US than in the UK and that British CDs are the cheapest in Europe.

Industry executives believe the position of music retailers is less clear. The national heritage committee said last year that the retail market was dominated by WH Smith, Our Price, Virgin, Woolworth and HMV, who together controlled 54 per cent of UK music stores. Last March, WH Smith, owner of Our Price, said it was merging the chain with Virgin Retail, with which it had previously had a joint venture.

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## FINANCIAL TIMES SURVEY

## BIOTECHNOLOGY

## A long and arduous journey to success

While raising cash to support science is tricky, the profits to be gained from developing a top drug remain a strong magnet, writes Daniel Green

Stephen Peroutka is happy, excited and perhaps a little nervous. Aged 40, he has just given up a senior job at one of the world's most successful biotechnology companies, Genentech. He now employs a staff of nine in a spartan office by California's Interstate-101 freeway about 25 miles south of San Francisco.

He is embarking on a journey that thousands of other entrepreneurially-minded scientists have made before him. He has started a company, Spectra Biomedical, that plans to discover how a disease works. Once the disease is understood, a team of scientists he has yet to recruit will find a way to treat it. A development team will take the treatment through several years of clinical trials to the doors of the Food and Drug Administration in Washington and its equivalents around the world. Finally, marketing and sales executives will put the newly approved treatment in front of doctors who (it is hoped) will be impressed enough to authorise its purchase by the truckload.

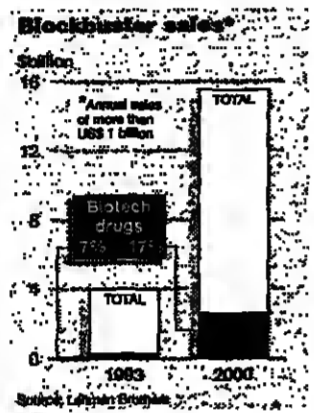
Mr Peroutka will become a saviour to thousands of afflicted people, a millionaire – possibly a billionaire – a Nobel prize winner and revered elder statesman of the world's healthcare industries.

Perhaps the most extraordinary aspect of the biotechnology business is that people believe in the possibility of successes such as this, and back their beliefs with cash. There are now more than 1,400 biotechnology companies around the world, half of which are in the US. More than 250 have achieved stock market quotations. Only five or six make an operating profit.

One certainty is that Mr Peroutka's story will be different scientifically from those that

have gone before. A decade ago, the drug interferon was hailed as a cure-all. It has turned out to have only limited use in cancer therapy. By the end of the 1980s proteins were all the rage. The idea was to make something that is already present in the body and avoid all the difficulties of side effects. Today, proteins are regarded as difficult to make, unstable and tricky to use because they have to be injected rather than swallowed.

The latest fashion is in



"small molecules" – essentially the business end of a protein. With all the unnecessary parts discarded, a small molecule can mimic the action of a protein and is cheap as well as easy to make, store and administer.

But while science moves quickly, the business of raising the money to support it remains gruelling. Mr Peroutka has got off to a good start by securing the personal backing of one of the doyens of California venture capital, Eugene Kleiner, a man behind many of the electronics and computer industry start-ups of the 1960s and 1970s.

Mr Peroutka's team is already working to find the

genetic basis of migraine. He has attracted attention from potential corporate partners in the US and in Europe. Soon he will do deals with venture capitalists, pharmaceutical companies and Wall Street.

Three thousand miles away, in Cambridge Massachusetts, Alison Taunton-Rigby, an expatriate Briton, is well into the second round of venture capital financing for her company Mitotix.

Her company has been recruiting fast, searching for the cell scientists which it wants in order to develop cancer treatments. It has taken advantage of the restructuring of the pharmaceutical industry. With job security no longer guaranteed, a biotechnology company promises growth rather than contraction.

Yet times are tough for a small biotechnology company. Mitotix has 40 employees and its few dollars of venture capital are beginning to look small. Wall Street is unenthusiastic about the whole healthcare industry so Mitotix is looking for corporate partners.

"We approached nine Japanese companies of which four to five have expressed interest and that has been narrowed down to three companies," says Ms Taunton-Rigby. Talks are still going on.

One day, Mitotix may find itself in the position of a company such as British Biotechnology. With 300 employees and an asthma collaboration with Europe's biggest drugs company Glaxo, it has just completed a financing round that raised more than £50m over two years.

Or it could go the way of fellow Massachusetts company Vertex which has used a string of corporate deals as the basis for building cash reserves of \$104m, almost \$1m for each of its 115 employees.

The company has a contract

in Aids research with UK drugs company, Wellcome, in which Vertex believes it drove a hard bargain because it had both the expertise – in an area called proteases – and a strong financial position. "Wellcome had to do the deal," explains Joshua Boger, company president. "We took advantage of that. Merck [the biggest US drugs company] and others were already into proteases."

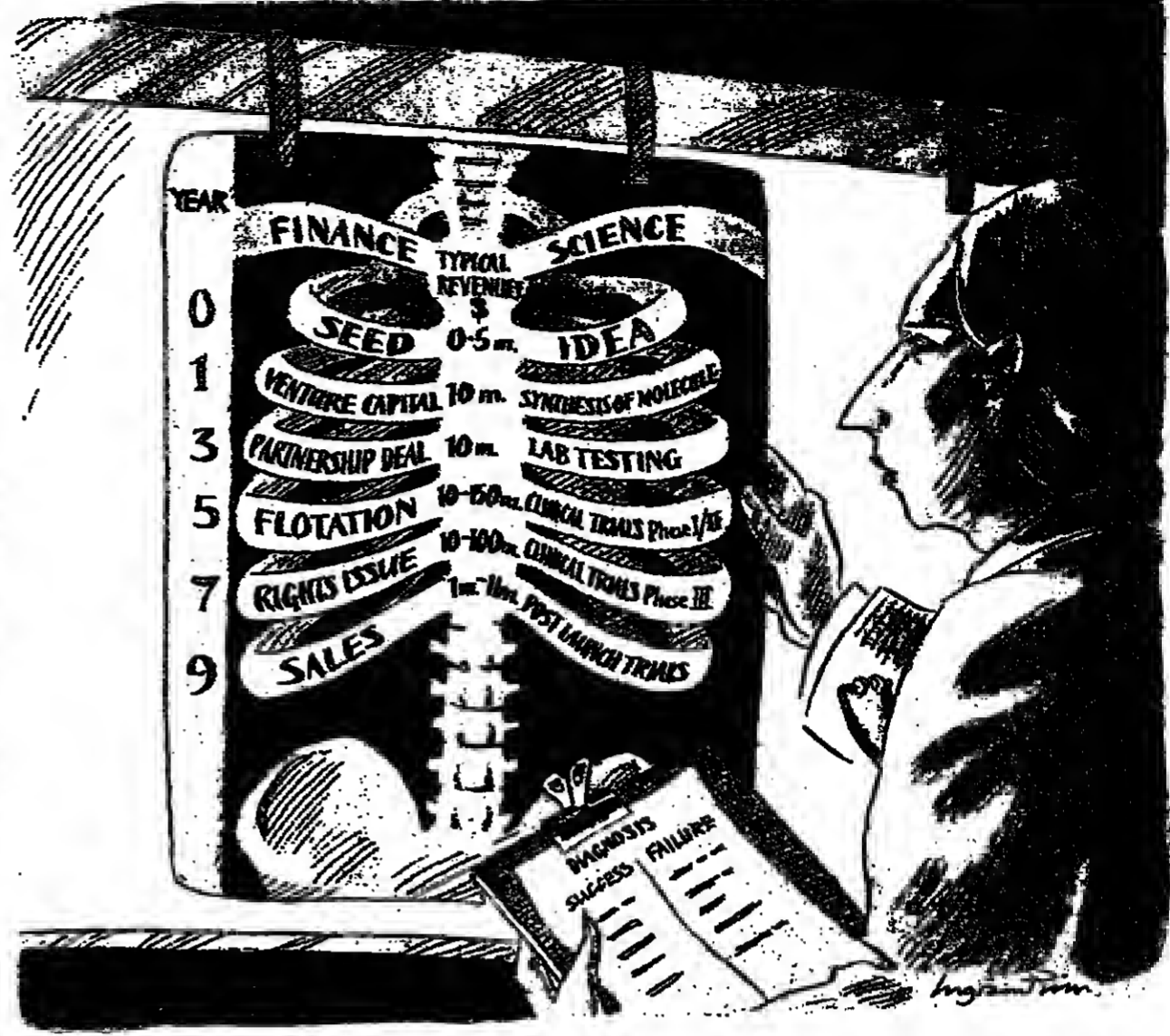
Vertex's financial strength brings it more than further cash. "We are especially pleased with the non-cash resources that have been put into these deals," he says. "In Wellcome's case the details have not been released, but French company Roussel put in more than 30 scientists in Paris and Swindon." Mr Boger makes little attempt to hide his ambition to become a global force in the healthcare industry.

Back in California, Chiron Corporation has almost done so. Last year it saw the approval of multiple sclerosis treatment Betaseron, which it now makes for Schering of Germany to sell. It has made profits for five quarters in a row and promises more thanks to joint ventures with Swiss company Ciba to develop Aids and herpes vaccines and licence deals in other areas with Germany's Bayer and Johnson & Johnson of the US.

Chiron remains a biotechnology company in financial and management terms. It is practically a drugs company. Edward Penhoet, chief executive, has 2,250 employees and deals with the problems that face ordinary companies. "When we get too big we divide it to try to keep the small company culture. We keep the management structure flat. Our target is five layers and we get close to it," he says, sounding like a career general manager.

But Mr Penhoet is not so different from Mr Peroutka. He gave up security as a tenured professor at Berkeley just over a decade ago. He moved three miles south from one of the US's most prestigious academic institutions to offices in disused dockyards across the Bay Bridge from San Francisco.

In the 13 years since he and two colleagues started Chiron, Mr Penhoet has seen many



rivals fall. Chiron itself took over Cetus in 1981. Last year saw the spectacular failure at late stages of development of sepsis drugs made by established stock market quoted companies Xoma, Centocor and Synergen.

Both in spite of and because

of such failures, the life cycle

of a biotechnology company

embodies the US way of doing

business. Sheer belief can make things happen; success attracts success.

Investment draws in talented people who get things done and attracts further finance. Waves of investors get in and then sell out at a higher price to the next wave. Many down the line will find they have bought worthless paper. The idea that seduced them failed.

The scientists move on, the entrepreneur starts another company, the next scientific fashion is in vogue.

But the ultimate goal is no longer a dream for southern California's Amgen. Fourteen years old and with 3,100 employees, it already has one product – blood treatment Eprex – which is among the world's top five selling drugs.

By the end of the decade it will have two in the top five and Eprex will have displaced Glaxo's ulcer treatment Zantac at number one, according to forecasts from analysts at stockbroker Lehman Brothers. Amgen stands at the top of the biotechnology pyramid. Like many before him, Stephen Peroutka has begun his climb. He will not be the last.

Local facilities and regulations are important, says Victoria Griffith

## Location a high priority

For such a young sapling of an industry, biotechnology has already rooted itself firmly in specific locations, and today's thriving centres will probably continue to dominate in the future.

The US holds the lion's share of the business, with more than 1,500 biotechnology companies. Europe, in contrast, has less than 250 operations, including university research programmes and pharmaceutical company subsidiaries. A handful of firms also dot Canada, Australia and Japan.

Within countries, too, biotechnology tends to cluster in specific regions. The areas around San Francisco and Boston are the undisputed capitals of the sector in the US. A research corridor also extends along the eastern seaboard from Rhode Island to North Carolina, and spots along the West Coast, including Los Angeles, San Diego and Seattle, have attracted a number of firms. In Europe, Britain is emerging as the biotechnology king, with centres in Oxford, Cambridge, Scotland and London.

Industry executives predict that future growth will be focused in these areas. "After a while, the business begins to feed on itself," says Kenneth Bate, head of sales at the Boston-based group Biogen. "Biotechnology firms want to be where the other biotechnology firms are. Scientists like to talk with each other, and there's a lot of cross-fertilisation that goes on."

The attractions which drew the biotechnology sector to these locations will continue to act as magnets in the future: a friendly regulatory stance, access to capital, proximity to universities and hospitals, the presence of a skilled labour pool and nearby airports and highways.

Regulatory procedures are the most changeable of these factors. Overly bureaucratic requirements can put a death seal on a developing biotechnology centre. Germany's antagonistic stance towards the sector has seriously limited its ability to compete as a biotechnology contender, for instance. Citing overly zealous regulatory restrictions in Germany, Bayer, Boehringer Mannheim and Hoechst have all established biotechnology operations in the US.

"It would take us at least two years to get permission to build a lab in Ger-

many," says Dieter Bauer, expert on biotechnology research and development at Hoechst. "In the US, we got approval for the building in about five weeks, and everything else happened very quickly."

The development of biotechnology in Britain has also been hurt by regulatory restrictions. Companies in the sector complain that until two years ago, flotation requirements for the London Stock Exchange included a five-year track record and three years of profits.

Since the rules changed, life has become much easier for UK firms. British Biotechnology floated in mid-1992 and a number of other companies have followed the group to market. "We negotiated criteria more appropriate to a biotechnology group," says Keith McCullagh, chief executive of British Biotechnology. Biotechnology companies usually do not show profits for years after their inception.

The UK sector now seems ready for growth, and executives hope the new, friendlier climate will halt the brain drain of British scientists to the US. But many believe it will take the country years to overcome the damage done by the previous regulatory structure. "The environment in the UK has changed tremendously, but we're still at least eight years behind the US in terms of developing a biotechnology industry," Mr McCullagh says.

Regional and local regulations can also make a difference. A few years ago, the state government of Massachusetts became concerned that a slow permitting process was undermining its status as a biotechnology mecca. The biotechnology company Genzyme was threatening to leave the state, and other groups were filing similar complaints. In the end, Massachusetts succeeded in keeping Genzyme in the state by allocating funds to take biotechnology companies swiftly through the regulatory procedures.

"We wanted a commitment from the government to work together with us on the permitting and approval process," says Geoffrey Cox, senior vice-president

in charge of world operations at Genzyme. "This is a big issue and can have an enormous financial impact on a firm. If it's your first product, for instance, all the months you're waiting for approval for a plant you're not selling anything."

Massachusetts also sweetened the Genzyme deal with tax breaks. Indeed, financing issues have become crucial in siting decisions. British company Celltech, for example, decided to build a US manufacturing plant in Portsmouth, New Hampshire, after the state made the group an offer it says it could not refuse. "We got tremendous financial assistance from the state of New Hampshire," says Peter Feller, Celltech's chief executive officer. "It was far more than we could have got in Europe, and a better deal than other regions in the US were offering."

Biotechnology groups also like to be near their investor bases and their market, two factors favouring growth in the US. "Most biotechnology groups will have to set up branches in the US at some point," said Mark McDade, chief operating officer for Boehringer Mannheim Therapeutics. "We set up here because we needed to address the needs of the largest, most profitable pharmaceutical market in the world."

British Biotechnology says it established a branch in the US in part because it wanted to be near investors. "About 18 per cent of our shareholders are in the US, so it's good for investor relations for us to be here," says McCullagh.

Other factors weigh into companies' decisions about where to locate. The availability of a skilled labour pool for instance, easy access to air and road transportation and quality of life, which helps firms attract the best people, are mentioned as important considerations.

Because these factors are often slow to change, industry executives believe a growth bias will favour existing centres. "Regulatory structures, being near universities, all these are important in making the decision about where to locate, probably more important than which places are the cheapest," says Mr Cox of Genzyme. "That's why I think that the south-west and north-east of the US, even though they are relatively expensive places to do business, will continue to be magnets for the biotechnology industry."

Debate focuses on how best to develop drugs, says Paul Abrahams

## Accessing the technology

The conventional wisdom on biotechnology – at least the one propagated by the biotechnology industry – is that the technology will provide the next generation of blockbuster drugs. Not all pharmaceutical groups' research directors are convinced.

"There is a bright future for biotechnology, but not as bright as you might think," says Dr Pierre Simon, director of Elf Sanofi, the French pharmaceuticals group. "If you look at what the industry was promising 10 years ago, it's a long way behind."

Dr Simon, who says his com-

pany does not intend any more close links with biotech boutiques, says: "It's clear that in the future some clear progress will be made in medicine through biotechnology. But biotechnology compounds are often too big and fragile. The drugs developed through biotechnology are so huge that they often have to be rejected – they won't cross the blood/brain barrier. They have to be developed to be injected. The most successful compounds are once a day oral drugs – with these drugs there's no chance of developing them for that."

In any case, argues Dr

Simon, the pharmaceuticals industry is making rapid progress in the field of drug design and, using computers, can screen as many chemicals in a day as it used to be able to test in a year.

"Why produce drugs through biotechnology, when you can make the compounds through classical chemistry?" he asks. "For the next few years we will try to mimic the products of biotechnology through classical chemistry. Through biotechnology you can identify a receptor, then the chemists can find cheaper, simpler alternatives to the biotech drug."

Although Dr Simon's non-conformist views are shared by many research chiefs in Japan, few in the western world subscribe to his views, at least in public. Many disagree.

Dr William Scott, senior vice-president of exploratory drug discovery research at Bristol-Myers Squibb, explains: "The opportunities for making better drugs are greater than ever before. In a short period of time most genes in the human body will be sequenced. Once we can identify the molecular basis of diseases, then we can begin to treat them."

Continued on page 2

## 'DREAMING'

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Raising capital is never easy, says Daniel Green

## Seeking a backer

If one phrase describes the nature of the biotechnology business it is "credibility equals capital".

A decade or so without income from sales means that the boss's job consists of endless rounds of capital raising. The chief executive has no suitcase of samples and the main sales tool is the scientists' creativity and hard work. Capital is needed more than just to pay the bills. A company with \$100m in the bank has a strong hand when negotiating with potential partners from the mainstream pharmaceutical industry. "Capital is a strategic asset, not just something you intend to spend," says Joshua Boper, president of Massachusetts company Vortex.

Yet it is hard to imagine a more ignorant group of investors than typical fund managers. Nobel prize-winning science must be sold to people who are accustomed to evaluating the plans of shopkeepers and food manufacturers.

And the sales pitch is getting tougher. New biotechnology companies are launched every week. Yet, US biotechnology companies managed to raise only \$2.8bn in 1993, down from \$3.4bn in 1991 and only a slight improvement on the \$2.5bn raised in 1992, according to research from biotechnology consultancy Feinstein and Partners.

The increasing difficulty in translating credibility into capital is seen in the average amount raised on flotation: \$22m in 1993, compared with \$28m in 1992 and \$35m in 1991.

One biotechnology company chief speaks of 1993's "waterfall of money. You just held out your cup and it was full".

Today, the tables have turned. "There's more great science than access to capital," says Harvey Berger, chairman of Ariad Pharmaceuticals of Cambridge, Massachusetts.

Steve Burrill of San Francisco merchant bank Burrill and Graves says that the US biotechnology industry alone will demand \$5bn in 1994 in further investment. It is unlikely to get it.

Wall Street might not understand science, but it does understand that the industry

rarely provides a return on its investment.

One of the main reasons that Wall Street has been prepared to fund the mysterious biotechnology industry is that it has thought it might be investing in a product so innovative it might be a monopoly. But healthcare reforms around the world threaten to prevent the charging of monopoly prices.

"Healthcare reforms scare off Wall Street," says Allison Taunton-Rigby, chief executive of start up Boston biotechnology company Mitotix. "Especially the thought of price caps on drugs."

So the merchant bankers' minds have turned to ever

**It's not very creative to sell stock at a discount. Sell it at a premium, that's creative'**

more innovative financial instruments, many designed to appeal to those who would not normally invest in the sector.

Last month saw a successful cash call from British Biotechnology using effectively a deferred rights issue. Half the money is to be put up now, the other half in two years time when investors have had a chance to see the results of work in progress.

In the US there have been even more creative ideas put into action, including off-balance sheet financing and spin-offs of subsidiaries.

One of the most widely employed is the PIPE - a private investment in public equity - in which a block of shares is placed privately at a discount to the market price. Pipes accounted for more than \$500m in 1993's biotechnology fund raising, according to Feinstein and Partners.

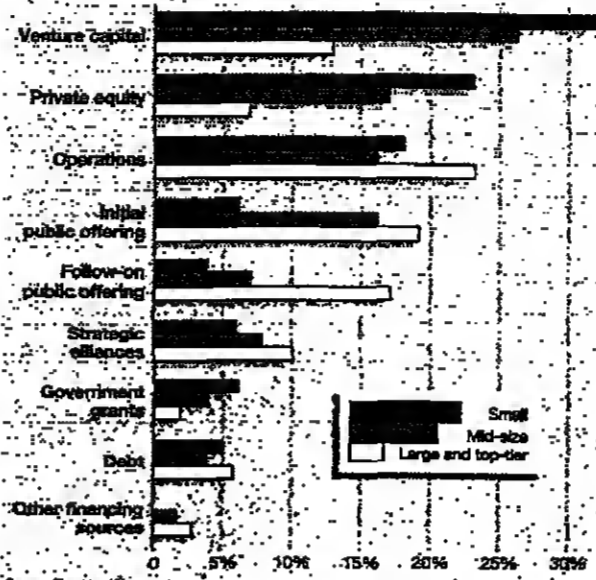
Nevertheless Pipes arouse controversy in the industry. For Mr Burrill, the private placing avoids the problem of the share price being depressed by market knowledge that a large block of shares is on offer. "You might offer the shares privately at a 15 per cent discount to the market price, but if you offered them openly, the stock might fall 30 per cent."

But one embittered biotechnology chief executive says: "It's not very creative to sell stock at a discount. Sell it at a premium, that's creative."

So the search continues for financial innovation suited to the industry. Aberlyn Capital Management, a US subsidiary of Dutch merchant bank Mees Pierson, part of the Netherlands' largest bank, ABN-Amro, lends money to biotechnology companies using their equipment and patents as collateral. "We are not taken aback by the dismal shape of the balance sheet," says Aberlyn president David Sakuma.

"Leasing on a patent as collateral can be done because patents are carried on the books at the cost of filing. In many cases, the technology remains sound even if the company gets into trouble. Investors

How companies have raised finance in the US



Source: Ernst & Young

lose sight of this." Another fund raising idea comes from Drug Royalty Corporation, a quoted Canadian company, which invests cash in return for a slice of the royalty stream of a product.

Alan Grieve, president, explains that their policy of not taking equity is attractive to biotechnology executives who have seen their stakes diluted as waves after waves of conventional investors become involved.

Such ideas have yet to make inroads into biotechnology companies. If Wall Street or the City of London are unable to provide the funds they need, they are likely to turn to the cash-rich pharmaceutical companies for finance.

Drugs companies can provide research and development help as well as cash. But they

often demand in return marketing and manufacturing rights and a slice of equity. For Ms Taunton-Rigby, drugs companies provide a less than satisfactory alternative to capital markets. "We've gone to pharmaceutical companies, but given a choice we would not, as you give up too much."

Nevertheless, now is a time of investor caution. Even a powerful story of scientific and management expertise meets with scepticism from investors.

Good science will always find backers, runs an adage in the sector. Privately, however, company executives concede that there are huge doses of salesmanship and luck to be added to a successful recipe. Credibility will continue to be the goal of the biotechnology company manager, and it will be achieved any way possible.

Miriam Hughesman on public perceptions

## Distrust remains

The rapid advances that have been made in the biotechnology industry over the past 30 years have caused much public debate. This debate has been focused on applications in health care, but equally controversial have been biotechnology developments in agriculture and food processing.

Some experts say that the lack of public support in Europe, in particular, is a stumbling block to industry progress. Studies conducted on the public perception of biotechnology over the past 10 years largely have concluded that the key to positive public support is education. Part of the problem is the lack of understanding of exactly what biotechnology is.

"People in general have very little idea of what biotechnology is," says Eirlys Roberts, CBR, author of *The Public and Biotechnology*, a study on public attitudes in Europe towards biotechnology. "They have a clearer idea of the genetic engineering part of biotech, but even that knowledge mostly comes from press coverage."

In the study, Public Attitudes to Genetic Engineering: *Some European Perspectives*, the author Louis Lemkow argues that if the industry cannot properly define itself, challenges lie ahead. "The term biotechnology itself is problematic. Even today, many scientific meetings held on biotechnology are prefaced by lengthy discussions on the provision of adequate definition of the subject."

Mr Lemkow says. He adds that with 41 definitions of biotechnology in EU documents alone, "the number of definitions of the work has become a matter of embarrassment". Dr Keith McCullagh, chief executive officer of British Biotechnology Group and chairman of the UK Bioindustry Association, says: "You can't use biotechnology as a generic term, it is not a useful description, it does not tell people anything." He believes that people are interested not in the biotechnology process but in the benefit of the end result. "If you tell people you have a possible treatment for cancer, the reception will be positive."

The European Commission-funded EU-wide survey conducted by Eurobarometer Biotechnology and Genetic Engineering - *What Europeans Think about it in 1993* - an update on the 1991 survey also highlights the public's distrust of the industry.

In ranking order, the most reliable sources of information on biotechnology and genetic engineering are considered to be environmental organisations, consumer organisations and schools and universities, according to Eurobarometer.

Eurobarometer's study finds that less than one respondent in five believes public authorities provide a reliable source of information on biotechnology. In Denmark, however, this is nearer one in two. The survey

trade and industry-sponsored survey revealed that the industry's efforts are failing to win support from sections of the public which are relatively well informed about biotechnology. The study found that 80 per cent of those questioned considered the industry to be an unreliable source of information. Some 68 per cent said they thought it took short cuts with safety.

Dr McCullagh said he did not think the full picture had yet emerged. "I am confident that once biotechnology products hit the market and people see what great value it has to offer Britain, public perception will be much more receptive," he said.

Quite a different situation exists in the US. Daniel Eramian, vice-president of corporate communications for the US Biotechnology Industry Organisation said US public perception was favourable, partially as a result of the Clinton healthcare proposals. "The healthcare debate for whatever reason, decided to make the large pharmaceutical companies as the bad guys and the biotech companies came out looking like the good guys."

He also attributes US success to what he terms a "freer enterprise system", where investors are willing to invest a large amount of money in small companies. "It is part of the American dream, the small company striving to become bigger and better. There are about 1,300 US biotech companies and about 75 per cent of them are small businesses."

Mr Eramian said he found the US media supportive of the US industry. "The industry provides a lot of information as products hit the market. We explain what it is all about, including the risks. It is not done in a vacuum, it is not dishonest and we certainly do not give the impression that we want to put our heads in the sand. People need to know what we are doing, if the industry is to be successful."

However Mr Eramian concedes that "no matter what you do, there will always be concern over something new, particularly if you are not told about it."

Miriam Hughesman is editor of the *Financial Times* newsletter *Biotechnology Business News*

## Finding routes to the new science

Continued from page 1

"Biotechnology and a greater understanding of the life and death of the cell are opening up vast new scientific and medical horizons," says Sir Richard Sykes, chief executive of Glaxo, Europe's largest drug group.

"The basic biology of cellular mechanisms is becoming more and more understood. That biological understanding is com-

ing mainly from outside the company, from university collaborations and small biotechnology start-ups." However, he adds: "Medicinal chemistry will still have an important role to play 10 years from now."

But in spite of the opportunities offered by biotechnology, considerable divergences remain among research directors and their chief executives over how best to access the new science.

A few groups, such as Roche of Switzerland and Rhône-Poulenc Rorer, the Franco-American company, have acquired substantial stakes in biotechnology groups. Roche spent \$2.1bn in 1990 on a majority stake in Genentech, while RPR acquired a 37 per cent stake in Applied Immune Systems, to gain access to its cell therapy technology.

Most recently Corange signed two large deals, acquiring stakes in Protein Design Labs for \$200m and CellPro for \$200m. Meanwhile, Wellcome linked up with Centocor in an alliance potentially worth \$100m, and SmithKline Beecham invested \$125m in Human Genome Sciences.

Others have set up a portfolio of small stakes or alliances in particular therapeutic areas, or even individual projects. The balance of bargaining between drugs groups and biotechnology companies has shifted markedly over the past 12 months. The collapse in the share prices of Synergen and



Cystic fibrosis sufferers can now be treated with the drug Pulmozyme produced by Genentech, which is 80% owned by Swiss pharmaceutical group Roche

Centocor after the US Food and Drug Administration turned down their products frightened many investors who had not realised the risks involved in biotechnology.

The harshening healthcare environment has made initial public offerings more difficult for the biotechnology companies. In particular, the provision of President Bill Clinton's proposed healthcare reforms to control the price of new drugs has hit the biotechnology sector hard, says Bill Steere, chairman and chief executive of Pfizer of the US, and outgoing chairman of the US Pharmaceutical Manufacturers Association.

"Often a biotech company is based on the development of a single product. When it comes to the market, that product not only has to pay past research expenses but also generate enough income for the future. The biotech groups are risky enough anyway. If we end up with price controls, then private investors are naturally reluctant to make that invest-

ment," says Mr Steere. Some pharmaceutical groups believe they can create innovative biotechnology groups internally. Their research directors are clearly linked by the propaganda pushed by some biotechnology companies that the drugs companies are lumbering giants incapable of harnessing the revolution proffered by biotechnology. "We've built one of the best biotech groups in the industry," says Dr Scott at Bristol-Myers Squibb.

This, he hastens to add, does not mean the company is not looking at forming alliances with biotech groups or even buying them out, but it does provide a level of expertise that allows him to make good calls when negotiating with the boutiques.

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- Encourage a positive environment for the growth of Britain's biotechnology industry
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- Establish co-operation between member companies, and speak out on important issues as an authoritative voice for the industry
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## BIOTECHNOLOGY III

Clive Cookson finds that a sizeable industry is beginning to emerge in Europe

## Moving on to the fast track

**D**on't be misled by the apparent quietness of the European biotechnology scene compared to the US.

While American biotechnology is a cacophony of hundreds of independent companies shouting exaggerated claims about wonder drugs in the early stages of development, the loudest noise to be heard from the European industry is moaning about over-regulation by the EU and national governments - particularly on environmental and patent issues - which allegedly puts it at a disadvantage in competition with the US.

In reality, the gap between Europe and the US is narrower than it sounds. The illusion of a huge US lead results partly from the customary habit of Americans to be more positive about their achievements than Europeans and partly because the structure of the industry is so different on each side of the Atlantic.

US biotechnology is driven entrepreneurially by young companies most of which have no products on the market yet. They burn millions of dollars a year in research and development and their existence depends on screaming good news at would-be investors. In contrast, European biotechnology has developed primarily in large pharmaceutical and chemical groups on one hand and in universities and non-profit research institutes on the other. Neither camp is so dependent as the US companies on public relations hype to raise money.

Even so the first survey of European biotechnology, published in March by

Ernst & Young, the US-based business consultancy, identified 400 biotechnology companies in Europe. That may be only one third of the American total but it is more than Ernst & Young had expected.

The consultants say that when they embarked on the study, their perception "was of an industry lagging behind that of the US on almost every measure, bar the quality of the initial science. What was found, however, was a sizeable industry emerging, one that is learning how to shape its future and that realises the scope of its potential contribution to the future European economy towards the year 2000 and beyond".

Ernst & Young predicts that the European biotechnology market will grow 15-fold to reach £50bn by 2000 and provide 2m new jobs. The key factors accelerating the growth of the new industry include:

- More uniform regulatory policies, driven by EU legislation;
- Increasing awareness of the sector's importance by investors, governments and the EU (last year's EU White Paper on Growth, Competitiveness and Employment highlighted the potential of biotechnology);
- Further development of centres of scientific excellence, clustering around universities;
- Emergence of exit routes for venture capitalists;
- More strategic alliances between small

biotechnology companies and large pharmaceutical and chemical groups.

A particularly important change in the European financing environment came in June last year when the London Stock Exchange relaxed its listing rules to make it easier for young biotech companies without a profitable track record to go public. Since then 11 companies, led by British Biotechnology, have raised £200m through initial public offerings in London, although no stock exchange on the continent has yet followed London's example.

Ernst & Young predicts that at least 20 biotech companies will be listed in London in a year's time. Initial public offerings on the LSE will raise £1bn for biotech companies over the next two to three years.

When it comes to strategic alliances, however, the most common pattern is still for the large European pharmaceutical groups to form partnerships with US biotechnology companies. Roche of Switzerland led the way with its \$2.1bn purchase of a majority stake in Genentech in 1990; the Swiss group also has minority stakes in Chiron and Protein Design Labs and collaborative agreements with Amgen, Synergen and HybriD, among others.

An analysis by Roche of the 55 "major R&D alliances" formed by the global pharmaceutical industry in 1993 shows that 52 of the 55 "technology providers" were US biotech companies and just three were

European. The corporate partners acquiring the technology included 21 European, 16 US and six Japanese pharmaceutical groups - and 11 established US biotech companies.

European companies are beginning to make good use of their US contacts. For example Schering of Germany has developed Betaseron, the first drug proven to have a clinical effect on multiple sclerosis, in collaboration with Chiron, the Californian biotech company, which is manufacturing it in the US; Betaseron came originally from Triton, a small US biotech company which Schering bought from Shell, the Anglo-Dutch oil giant.

The European industry has complained consistently about regulatory burdens that are more onerous than those in the US and Japan. There has been a particular problem with environmental controls (obtaining permission to release genetically modified organisms into the environment) but European companies say that the whole approach of EU biotechnology regulations - concentrating on the process rather than the product as in the US - has made life unnecessarily difficult for them.

But within the past year the EU and national governments have responded to industry concerns by streamlining regulations. A further boost will come from the European Medicines Evaluation Agency which is being established in London to provide centralised licensing of new drugs from 1995. It is likely to give the EU a faster and cheaper approvals process than the US Food and Drug Administration.



The London Stock Exchange last year relaxed its listing rules to make it easier for young biotech companies without a profitable track record to go public.

Japanese biotechnology is scarcely out of the starting blocks. It has been left standing by the US and even lags behind Europe. Yet most Japanese pharmaceutical research directors believe biotechnology will be key to the next generation of medicines.

"We're witnessing a revolution in the methodology of making drugs," says Dr Masahiko Fujino, general manager, discovery research division at Takeda, Japan's biggest drugs company. "Biotechnology and the understanding of human genes is creating a completely different concept. In the past

drugs were designed to be tested on animals. Many compounds that might have proved safe and effective in humans were rejected, and many that were valid in animals just did not work in humans," he explains.

"Now we are designing drugs for humans," says Dr Fujino. "There will be an increasingly high probability - maybe 50 per cent - for drugs to pass toxicology. That's double the present rate."

Dr Masaji Ohno, managing director of R&D at Eisai, says: "We're well behind." He believes Japanese companies

Low R&D spending is Japan's main weakness, writes Paul Abrahams

## Just out of the starting blocks

may be able to do create some innovative work by the beginning of the next century.

A few companies have attempted to remedy their deficiencies by setting up separate biotechnology units. Most, however, have tried to incorporate the technology in their research and development division.

"We are producers of medi-

cines. If a science leads us to a potentially new drug, we will try to increase our knowledge," says Dr Yoshihiko Baba, director of the Sankey research institute. "Merck and Glaxo can afford to concentrate on the technology and then the products. We can't."

The weakness of Japan's biotechnology expertise is a reflection of the more general weakness of Japanese pharmaceutical R&D. In some areas, such as antibiotics, cholesterol-lowering medicines and allergy treatments, Japanese scientists are among the world's leaders. But the main weakness of Japanese R&D is that companies spend too little.

Their spending, when expressed as a percentage of sales, is not poor. Takeda invests 8.2 per cent of its turnover on R&D, Fujisawa 14.8 per cent, Sankey 9.8 per cent, Eisai 13.2 per cent, Shionogi 11.8 per cent, Daiichi 12.3 per cent. That compares favourably with Merck, the biggest US drugs group with R&D spending at 11 per cent of sales, and Glaxo, Europe's biggest company at 18 per cent.

But Japanese companies limit their exposure overseas means their overall sales are low and amounts spent on R&D are tiny. While Merck spent \$1.17bn on R&D last year and Glaxo \$1.1bn, Takeda, the largest Japanese company, spent only \$567m, and not all of that on medicines. Sankey, Fujisawa and Yamanouchi all spent less than \$400m, and Eisai, Shionogi and Daiichi invested less than \$300m.

Inadequate R&D spending is reflected in the number of scientists in R&D. Merck has 1,700 scientists in research alone, excluding development. Takeda, has 1,200 in R&D com-

bined, while Sankey has between 1,200 and 1,300 in R&D. Daiichi employs 600 researchers and 130 scientists in development; Eisai has 420 people including administration in clinical development, safety and formulation, and 220 scientists in discovery; and Yamanouchi has 1,320 in R&D. Glaxo employs some 7,500 scientists.

Much research is also poorly directed. While considerable lip-service is given to the need for innovation, many R&D directors are more interested in what they call "survival" products. These are compounds with only small improvements on previous therapies that, in the past,

could be used to side-step the Japanese Ministry of Health and Welfare's price cuts every two years.

Unlike their western competitors, Japanese groups have proved reluctant to rationalise their therapeutic areas, reallocate scarce resources to areas such as biotechnology.

When challenged why his company persists in antibiotics, a low-margin, highly competitive arena, Dr Fujino at Takeda explains the company has an historical responsibility. "If Takeda doesn't give up, maybe the others will."

Few Japanese companies have made up their for lack of

biotechnology experience by links with US and European boutiques. In part this is a reflection of their insularity. Few companies have R&D centres outside Japan (although some have links with overseas research institutions). Sankey, for example, has only 15 R&D scientists in the US, and about 165 in Germany, almost all in development. Takeda, Japan's largest group, has no research centre outside Japan, although it is considering setting up a unit at a UK university.

The links that have existed between Japanese drugs groups and western biotechnology companies have been fraught. Sankey's relationship with Celtech, the UK biotechnology group, was not successful, says Dr Masanori Saeki, director of the R&D planning department, "partly because the success rate is not high. But a relationship like this is like a marriage. The human factors are very important. In

addition, the economic factor is decisive, both sides have to have a financial incentive to make it work."

Clearly, some Japanese groups, given their conservative practices, feel ill at ease with the high-risk, high-reward approach of the US biotechnology industry. Some companies, such as Takeda which has had links with Chiron, have been braced by their experiences.

"These relationships were not very successful," says Dr Fujino. "I do not believe links with biotechnology groups will lead to much."

Daiichi says it has abandoned its links with US biotechnology boutiques. "We did have a relationship with Calbio working on Alzheimer's. But Alzheimer's proved very difficult and we have further plans to link," says Dr Hiroki Nagasaka, board director for corporate planning at Daiichi.

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# THE MONDAY People page

## The longest swansong on Wall Street

Richard Waters looks at what makes Felix Rohatyn probably the most renowned investment banker in America

**Y**ou sit in the ante-room and wonder at its drabness. The non-descript wallpaper, the table too big for the room - you have to edge around it to peer out of the window on to Manhattan's West Side. No corporate art collections on display here.

Who else has been ushered into this anonymous receptacle in recent months? Martin Davis, the erstwhile boss of Paramount Communications, perhaps, or Howard Stein, who is selling his Dreyfus mutual funds group to Mellon Bank. Or maybe Stephen Wolf, head of United Airlines, which recently sold a majority stake to its unions, or Garry Wendt, whose GE Capital yesterday announced an agreed merger with the Kemper financial services group.

A door to the inner office opens and Felix Rohatyn sweeps in. Or rather, he hustles. A compact, slightly rumpled man in his mid-sixties, Rohatyn moves to the far side of the vast expanse of table. With sharp eyes behind his thick-rimmed glasses, he looks like an alert elderly uncle. You have to pinch yourself to remember that this is probably the US's most renowned investment banker. Though he will hit 66 at the end of this month, Rohatyn, a senior partner at Lazard Freres, is still very much in the thick of things.

The takeover wave of the late 1980s had seemed likely to be his last fling. Nearly six years ago, *Business Week* was moved to ponder "the post-Felix era" at Lazard. Rohatyn at 60 is not the ravenous gatherer of new business he once was. But the 1990s takeover boom has projected him back into the limelight, even as many of his contemporaries are moving into retirement.

"There is a generational change," says one (much younger) merger and acquisition head on Wall Street. "But Felix is Felix - he gets introduced to other people by people he knows." The business gathering has not faltered.

Rohatyn's swansong can probably be attributed in equal measure to his contacts, his reputation, and his style. The contacts have been formed over many years: the relationship with Howard Stein, the 66-year-old head of Dreyfus, dates back 25 years, says Rohatyn. Martin Davis, who retained the Lazard banker to advise him on the sale of Paramount, is also a long-term friend.

The election of a Democratic president has buoyed the fortunes of Rohatyn, himself a life-long Democrat and a man once talked of as a Clinton Treasury secretary. A position on the airline commission set up by the Clinton administration last year served as an introduction to Wolf of United Airlines. Wolf was having trouble persuading the airline's unions to make big concessions in return for a majority stake. "He showed up one day in my office and said he would like to retain us - and me specifically - because he thought it would help to convince the unions that he was serious," says Rohatyn.

If Rohatyn's style suits the times, it is because he largely stood back from the "binge of leverage" in the late 1980s, says Martin Lipton, the US's top takeover lawyer, and a contemporary and close friend. The more considered, less super-heated takeover market of the 1990s has suited him better.

Rohatyn himself characterises the current wave of takeovers in the US as being "driven by technological or regulatory or legislative changes - whether



it is the regulation and technology of communications and media, the legislation and the changes coming in health-care, or in banking, or in mutual funds". His verdict on the resulting restructuring in some of the biggest industries in the US: "It's real - it's reality. It's not whether you can sell a junk bond to an S&L." The exception, perhaps, was Paramount. The stress of that \$10bn battle is clear from Rohatyn's verdict now: "Probably the most difficult and personally draining experience I have ever been through."

His reputation did not emerge unscathed. Last summer, with Rohatyn advising him, Davies agreed an \$8bn takeover by Viacom in a transaction designed to discourage any other bidders. The courts later ruled that cozy deal illegal, opening the way for a bidding war which eventually forced Viacom to pay some \$10bn for its conquest (and left Davies without a job).

Rohatyn still sticks by the original plan. Explaining why the agreed deal with Viacom had been hatched, he says that, even though the deal was widely leaked, no one else came forward to express an interest in the buying the group - and "you don't shop a \$10bn company around, you really don't - it doesn't happen." He adds: "I would argue frankly that the original deal would have created a very powerful company in terms of capital structure. That, over time, would have been a much better deal than going through

this whole agony and winding up with a highly-leveraged business that will require dispositions of assets."

Rivals, though, say Rohatyn should have put Paramount's shareholders first. "He got a black eye. We will use that when talking to their clients in future," says a senior investment banker at another Wall Street firm.

Davis is leaving Paramount. Stein, at 66, is unlikely to stay long with Mellon. Wolf is planning to step down when (if) United's shareholders approve the buy-out. ("I can't take credit for that one - he had decided to leave before he even showed up in my office," says Rohatyn.) The loss of old ties makes business-gathering harder.

And Rohatyn, though active, is less intimately involved in deal-making than he was. "Back in the 70s, we would go seven days a week, 14 or 16 hours a day," says Lipton. Not any more. "Felix takes more vacations than he used to, and he doesn't work as hard as he used to - none of us in our sixties [does]." For now, he does not plan to leave Lazard - though "I certainly do have plans to spend more time on other things." He is involved on a UN commission, acts as vice chairman of Carnegie Hall and hopes to serve on other official US commissions, for instance.

If the right offer came from the Clinton administration? "If the president asks you to do something, you do it - but it's certainly not something I expect or am seeking."

## Personae...

### Reinshagen: from fine art to UBS boardroom

Staid old Union Bank of Switzerland will have to go some way to provide Maria Reinshagen, one of two women it has just elected to its board, with the kind of thrills she has known in the fine art business, Ian Rodger in Zurich.

Reinshagen, deputy chairman of the Swiss subsidiary of Christie's International, was the underbidder for Van Gogh's *Portrait of Dr Gachet* in May 1990 when Byoung Seon, a Japanese paper magnate, won it with a \$75m bid. With the 10 per cent commission, the \$82.5m is still the highest price ever paid for a painting.

"By the end, my heart was about to jump out of my body," recalled Reinshagen last week of the feverish bidding. Described by Christie's chairman Sir Anthony Tennant as the group's number one business getter, she says

she throws herself fully into everything she does.

She studied violin as a child and played in professional orchestras in Switzerland and the US in the 1960s. But she gave it up in 1966 when the first of her two children was born. A school teacher by training, she started in the art business in Zurich in 1961, working in galleries there and in Los Angeles until setting up a Zurich outlet for Christie's in 1978.

Inevitably, both she and Anne-Lise Monnier, the other woman joining the UBS board, have been labelled token women. Reinshagen, who did not even campaign for women's voting rights in Switzerland in 1971, says she is apolitical and has never had problems working alongside men. She has, however, fought vigorously to reform the country's perverse primary

school hours, which are deliberately designed to trap mothers at home.

She joins the UBS board at a potentially exciting time. Her election was in doubt till the end because of a motion by activist shareholder BK Vision at the recent AGM to slash the board's membership from 23 to nine. The motion was defeated, but the 40 per cent support for BK and its intense chairman, Martin Ebner, showed that the bank's directors will have to pay much more attention to shareholder interests than they have in the past.

Reinshagen suggests that Ebner erred only in pushing the issue in the year when UBS finally invited two women to join, and in fixing on nine. "By coincidence, nine is my favourite number, but for such a large bank, it is too low a figure."

## A future on other side of turf war

After drifting for two years without a permanent helmsman, the agency which supervises the rapidly growing and often controversial derivatives industry in the US has now found a well-qualified new head-in-waiting. President Clinton last week said he intends to nominate 38-year-old Mary Schapiro as chairman of the Commodity Futures Trading Commission, writes Laurie Morse in Chicago.

Schapiro was most recently a commissioner of the Securities and Exchange Commission, and hence on the other side of the turf wars that erupt between the rival agencies at frequent intervals. But she has also had a cosy association with the derivatives industry for most of her 14-year career.

Having started an enforcement attorney for the CFTC, she quickly became executive assistant to the chairman. The bulk of her time - 9 years - was then spent as a lobbyist for the industry in her capacity as general counsel for the Futures Industry

Association in Washington.

And though she left the FIA in 1988, appointed by Ronald Reagan to the SEC, she has maintained her personal ties to the FIA. The relationship has served her well; her candidacy for the CFTC chair was actively encouraged by futures practitioners, who heaved a collective sigh of relief last week.

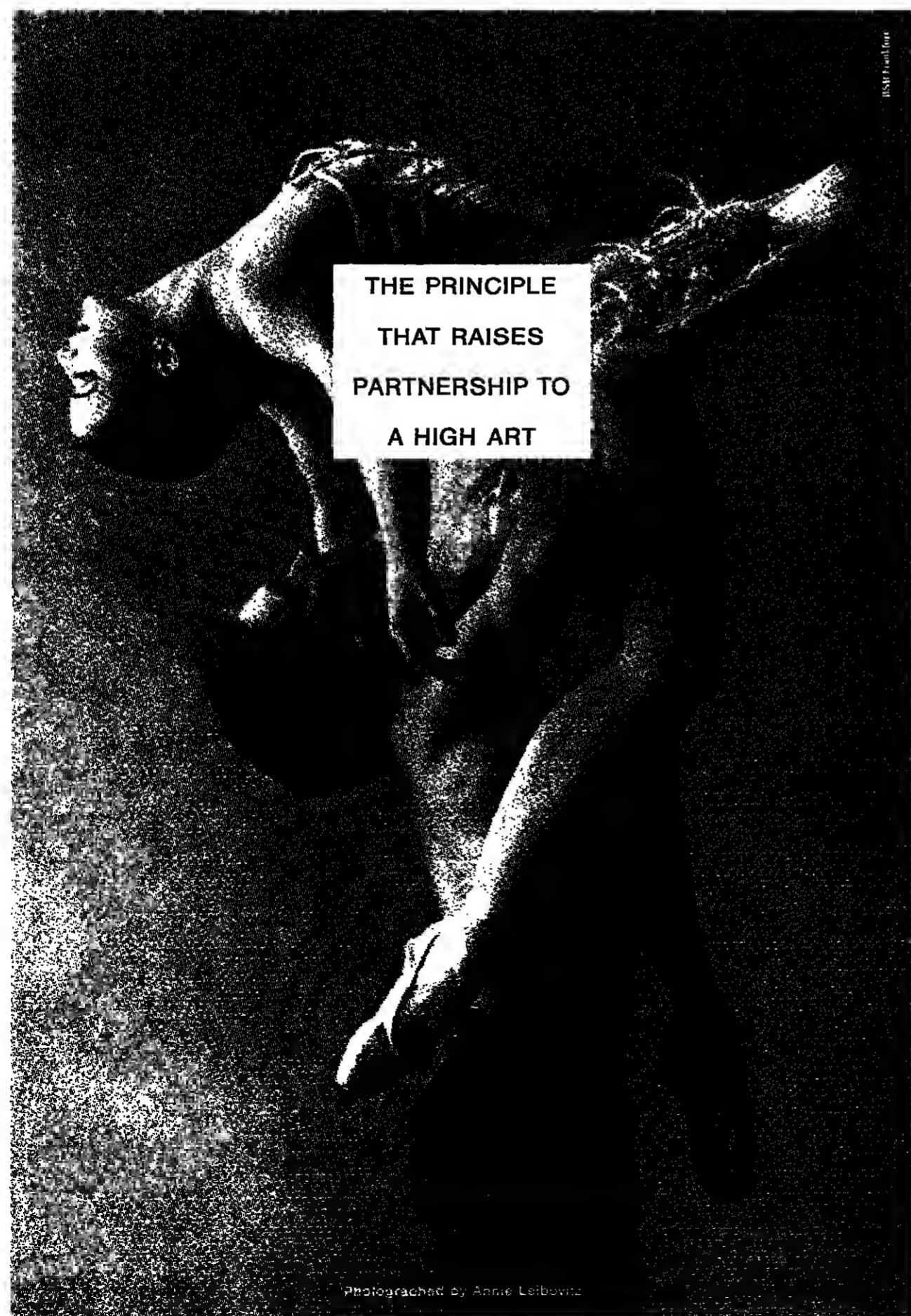
Given the intense criticism aimed at the whole field recently, it might seem surprising Clinton picked an industry advocate to become its chief watchdog. But Schapiro's supporters, including Arthur Levitt, SEC chairman, argue that a detailed grasp of this dynamic corner of the financial world is essential for the position, and that Schapiro's broad experience with the SEC and CFTC will benefit the inter-agency co-operation now seen as critical for derivatives regulation. Schapiro intends to stay at the SEC until she is formally nominated to the CFTC and has Congressional confirmation to the post.

## Derivative move across the Rhine

After playing an important role in shaping the French derivatives industry, 39-year-old Antoine Paille has crossed the Rhine to set up Commerzbank's new derivatives venture, Commerz Financial Products (CFP), writes Conner Middelmann.

An options specialist, Paille was an early recruit to derivatives in Paris, and sat on the commission that drafted the relevant regulations. He spent a decade building up Société Générale's derivatives capabilities and left last October, "ready for a new challenge".

He remains cagey how met Rudolf Duttweiler, Commerzbank's capital markets and treasury boss, who was head-hunted from CSFB in London a year ago. But he says they had an almost instant meeting of minds as to how to approach the business. The smallest of the big three German banks, Commerz is the first institution in Germany to set up a derivatives subsidiary.



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## MANAGEMENT

Assembly-line workers cheered Terry Morgan, the chief executive of Land Rover, when he addressed a factory meeting wearing grey overalls. They thought it was some kind of gimmick. That was three years ago, he is still wearing them, and people don't see any more.

Managers admit that outsiders can still find it disconcerting to be greeted by a British executive in a grey "workers" suit, rather like coming across someone from the Chinese communist party central office, mid-cultural revolution, on a number seven bus. The comparison grows more acute at Rover which, perhaps more than any other British manufacturer, has been undergoing its own cultural revolution.

New Deal, the company's agreement with the unions in 1992, secured a management pledge of job security for all. The way that it is being engineered has led to some tough career decisions for managers and administrative staff watching their old jobs disappear through technological change.

Current Rover vacancies are almost all in assembly-line jobs but when the company asked for volunteers last November from white-collar staff to move across, few stepped forward. So far only 200 out of a hoped-for 500 or so have crossed over to hourly-paid production jobs and not all have yet signed new, blue-collar contracts. Others are thinking about it. Staff report a lowering of morale among many of those canvassed to consider changing jobs and the company admits it will have to recruit from outside.

The need to encourage cross-overs became apparent when Rover found itself top-heavy with clerical and administrative employees. Its shift from volume car producer to niche manufacturer has led to greater emphasis on front-line production workers.

At Land Rover, for example, after the vehicle frame has come out of the body shop into the main assembly plant, there are no robots, and all the work is done by hand. Computer-based ordering, which allows any specification on any model to be tapped down the telephone line is reducing the clerical roll. This has led management to seek greater flexibility in the workforce. Part of this process includes encouragement of staff to take part in assembly-line work on Saturdays. Another practice developed to create all-round

# Rover's cultural revolution

Richard Donkin discovers what white-collar workers do at the car manufacturer when their old jobs disappear



Malcolm de Saulles, who went from finance analyst to production-line work: "For the first fortnight I couldn't move a muscle"

## From white lane to blue

Malcolm de Saulles, in his 28th year with Rover, saw his post as senior finance analyst disappear 18 months ago. But while his job became redundant, he did not, moving through a series of project posts until he was asked if he would accept production-line work.

He now works on the Discovery transfer case, the part that is attached to the gearbox and converts the vehicle to four-wheel drive. "For the first fortnight I couldn't move a muscle. It was devastating. Then I got used to it and now it is great," he says.

For others, such as John McSheffrey, a heat treatment supervisor, the transition has been more difficult. He has no intention of going to an hourly-paid job and is seeking other opportunities within and outside the company. "I want to be a production manager if I can, whether here or elsewhere."

Lynne Hindmarsh, a former clerical worker in credit

control and inventory, has signed a contract as a fork-lift truck driver on the production line. "I had done a succession of projects since my former post was displaced, then 15 of us in my area were asked if they wanted to go on to the production line. Only two of us said we would. Frankly, it's hard work. I didn't realise how easy it was behind a desk."

All who cross over to production-line jobs have been guaranteed their former salaries for two years. With the opportunity to earn overtime on top it has increased earnings potential in the short term. "I can gross £700 a month in extra overtime so financially I have never had it so good," says de Saulles.

In the long term, however, all of them know their salaries are not assured. De Saulles says he has not yet opted to change his contract but is thinking about doing so. "I'm very happy doing what I'm doing, which I can't understand in some respects, but I am."

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Executives not wearing overalls are more likely to attract sarcastic comments today. When Bernd Pischetsrieder, the BMW chairman, visited the Rover plants immediately after BMW's takeover announcement in February, "we had some overalls run up for him although the name tag was a bit of a problem. It almost ran down his sleeve," says David Bower, Rover's director of personnel.

Rover name tags do not indicate position. Like many of Britain's newly restructured companies, Rover has a flattened-out management structure. "I'm only one step away from the managing director's job," says Bernard Sullivan, Rover's training and development manager. Sullivan enjoys a reputation as something of a management specialist on the conference circuit and his views command respect - yet you could not tell him from a council bluman by his dress and that is how Rover wants it.

The philosophy on working practices goes much deeper than dress, however. Many of the ideas are drawn from Japan, although management was sceptical that Japanese culture could be transported to Rover before they saw how it had been adapted in a US Honda factory in Marysville, Ohio in 1986. "Suddenly we were thinking if it can happen in the US, it can happen here," says Bower.

The need for change had already been established that year when the company carried out the first of a series of attitude surveys among employees. "The things people told us were important to them have not changed over the years. They wanted a degree of challenge in their work and to participate in problem solving. They were concerned about the quality of training to develop the skills to do their job and they wanted opportunities to advance themselves in the business."

They were concerned about the quality of communication and the quality of leadership," says Bower. Sullivan explains the new approach to flexibility thus: "There may well be a job for life but it won't be the same job. You may start out as a fitter, become managing director and end up as a fitter."

Rover says Pischetsrieder has no plans to change working practices at the Rover plants, nor do Rover managers plan to copy BMW systems. The main impression from visiting Rover plants today is that there is a much greater degree of honesty between management and the workforce. It is a far cry from the British Leyland days.

"There is no end to this story," says Bower. "Continuous change is part and parcel of being competitive and staying alive. The challenge is to maintain the bulk of the improvement so people become part of it but not overwhelmed by it."

## Peter Warr says it's time to put an end to age discrimination Old soldiers do not fade away

Stereotypes about older employees give rise to a great deal of prejudice. That is obvious to the middle-aged manager who becomes unemployed and has to start applying for jobs.

Invalid negative stereotypes, though, also determine what happens to people who are still in work. These have been reinforced in recent years by the widespread encouragement of early retirement for many managers. Those individuals are thereby publicly defined as "too old", and as a result negative attitudes to other people of the same age become even more fixed.

Research has indicated that the stereotypes applied in decision-making about older workers are widely incorrect. The mental decline that takes place up to the mid-60s is very small, and is limited to only a few types of information-processing. In most activities, there is no overall difference between the work performance of older and younger staff.

Furthermore, older employees have available depths of knowledge and expertise built up over years of relevant experience.

Prejudice against older staff is often seen in decisions taken about the provision of training at different ages. Many companies restrict learning opportunities at older ages, for instance by emphasising that individuals cannot be spared from their immediate work activities.

Two surveys by the London School of Economics have found that the amount of training declines rapidly as a manager gets older. This is despite the belief (expressed by nearly 90 per cent) that "the business environment is changing so rapidly that managers need more training than in the past."

As a result of this age-inbalance, older managers can become out of practice as learners, and they sometimes feel uneasy about entering new training situations. But that is not to say that they cannot learn. Other research has shown that older individuals can acquire new

skills and knowledge, especially when learning involves practical activities rather than being merely abstract and unused. Older learners, in particular, benefit from opportunities to turn into action the general principles and specific facts which need to be acquired.

So what to do? First, throw out the overall negative stereotype. Look at the person, not at his or her age.

Second, if some staff changes are essential, ensure that early retirement or age-based redundancy are not automatically viewed as the primary option. Think initially about other routes to competitiveness, through job redesign, lateral transfers, training and other procedures which can utilise important expertise and knowledge.

Third, if a number of older managers have to be asked to leave, seek to retain their skills through some form of subsequent contract, perhaps intermittent or part-time, or perhaps as a consultant.

Fourth, and most fundamentally, work towards a culture of adaptability at all ages. Current levels of competition and the pace of change mean that new ideas, procedures and products must be sought all the time.

The best way to develop adaptability is to keep people learning. It often makes sense to plan the movement of managers sideways to different jobs, where new demands will be placed upon them. It is clear that flatter organisations will require career ladders to be shorter.

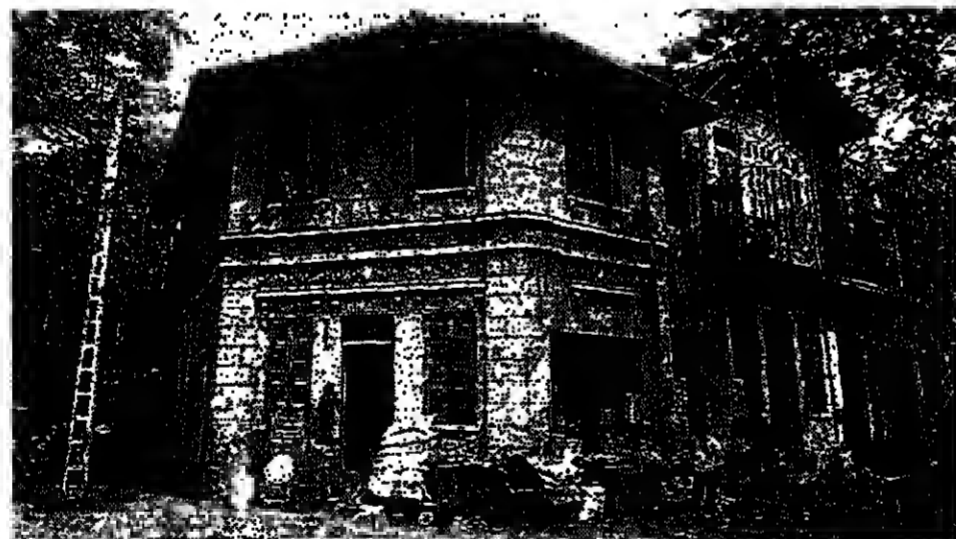
In a corporate culture of continued learning, the strengths of the older manager can be a foundation for company success. At present, many organisations are responding to a socially-fashionable idea that youth is best. Research makes it clear that neither youth nor age is in fact best: it all depends on the individual.

The author is a research professor at the Centre for Economic Performance, LSE.

## BUSINESS TRAVEL

Sarah Murray on the charms and hassles of doing business in Hanoi

## Another dragon awakes



A French-style colonial villa in the old quarter of Hanoi, which now serves as a shop

countries were once strong and many Vietnamese studied or worked in eastern Europe or the former Soviet Union. From its own communist

past, Vietnam is being hurried into the 21st century at an alarming pace, in offices which seem unchanged since the 1940s, there will be a cordless

telephone. And the crumbling terracotta roofs of ministries sprout satellite dishes. There are signs that Hanoi is quickly learning how to accom-

modate the hordes of businessmen clamouring to enter what they predict will be the next dragon economy.

It is now possible to phone for an air-conditioned taxi or order a take-away pizza from a restaurant run by an Australian.

Decent accommodation, however, is less easy to find and expensive when you can. The Metropole remains the only hotel meeting western standards and is usually fully booked. But a host of mini-hotels are springing up. These are eight to 10-room wonders where, among the kitsch statues of Greek goddesses and hideous nylon bed linen, staff are friendly and satellite TV and IDD facilities are available.

Since credit cards and travellers' cheques are not in wide use, it is best to take cash. Dollars are eagerly accepted and it is advisable to have a supply of dong, the local currency, since a cyclo ride costs only a fraction of a dollar.

But Hanoi, whether charming or frustrating for the traveller, is changing fast. Multi-million dollar hotel projects, high-rise apartments and office blocks are planned, and these threaten to alter radically one of Asia's most delightful cities.

Likely weather in the leading business centres

	Mon	Tue	Wed	Thurs	Fri
Tokyo	22-28	23-29	24-30	25-31	26-32
Hong Kong	22-30	23-31	24-32	25-33	26-34
Frankfurt	12-18	13-19	14-20	15-21	16-22
London	10-16	11-17	12-18	13-19	14-20
Paris	11-17	12-18	13-19	14-20	15-21

## Continental Airlines cuts fares to Europe

Continental Airlines has announced new one-way fares from the US to Europe.

According to the airline, these will reduce the price of some tickets by up to 67 per cent. The fully-refundable, unrestricted fares are available on every seat on every flight and do not need to be purchased in advance.

A flight to London will cost between \$349 and \$499 each way. Fares to Paris range from \$399 to \$499, and those to Frankfurt, Munich and Madrid will cost from \$349 to \$549. Fares for weekend travel are \$50 higher.

American Airlines says it will match Continental's fares, but only on a round-trip basis until September 15.

Trans World Airlines says it will respond with fully-refundable, one-way fares in certain international markets.

Delta Airlines is looking at the new fare structure but is not sure it will follow suit.

## United does more business at home

United Airlines said last week that domestically it had experienced stronger traffic and improved passenger loads.



"These were driven in part by low fares," said J C Pope, president and chief operating officer.

United's total scheduled revenue passenger miles (RPMs) increased 6.1 per cent in April, compared with the same month of 1993. Available seat miles rose by 0.5 per cent.

The scheduled passenger load factor was 68.1 per cent, compared with 64.7 per cent a year ago.

The airline's total scheduled RPMs were 3,370m compared with 7.8m in the same month of 1993.

## Granada cuts cost of calls

Granada Lodges, the UK hotel chain, has introduced the British Telecom payphone standard of 10p per unit at its 21 lodges nationwide. BT payphones have been put in all rooms and accept commercial credit and charge cards.

## High - and dry if you want it

Wine-enthusiast readers of Business Traveller may feel rather short-changed by last month's issue. For the last eight Aprils the London-based magazine has published the results of its trail-blazing comparison of the big airlines' wine selections.

But this year its editor, Gill Upton, has bowed out of the comparative tasting notes and rankings game, partly because of the "nightmare" of organising last year's taste-offs actually in-flight (at the behest of the airlines), but also because business travellers seem to be less and less interested in what they eat and drink.

In the 10 years the magazine has been polling its readers on how they rate airlines' attributes, food and wine has fallen from fourth to ninth place.

This drop may, of course, reflect the considerable improvement in in-flight catering since the early 1980s. Cer-

tainly a number of airlines have targeted food and, particularly, wine as a significant marketing tool. According to Peter Nixon, British Airways' chief cellarer: "Wine is one of the areas in which you can make a significant improvement over your competitors."

Most of the big airlines have been hard at work on their wine lists over the past few years, sometimes sponsoring wine competitions and often hiring outside help. American Airlines, for example, has featured its wine expert Dr Richard Vine, looking serious in tenebrous cellars, in its advertising campaigns.

BA meanwhile has called upon the services of wine writer Hugh Johnson, Michael Broadbent of Christie's and Master of Wine Colin Anderson to help select the 340,000 cases of wine it buys each year. And Singapore Airlines has regularly fought BA and American



Airlines for first place in inter-airline wine comparisons, thanks to its panel of tasters carefully drawn from Britain, Australia and California.

It is BA's Anderson who has conducted some of the most detailed research on the psychological and physiological effects of wine drinking in the air. He maintains that our tasting ability is impaired at 33,000 ft, chiefly because of dehydration which dries out the sensory membranes.

The upshot is that acidity and tannin tend to be accentuated, making even the fruitiest champagne taste leaner than it should, and flattening fruity exuberant wine styles such as those produced in the New

World. The cabin pressurisation also tends to thin the blood slightly, which means that the effects of alcohol are accentuated. This, together with the generally dehydrating effect of air travel, means it is essential to alternate non-alcoholic drinks with alcoholic ones.

Another important factor is stress. For many travellers, alcohol is used as an antidote to fear of flying, or simply a release from an angst-ridden airport experience.

As Nixon puts it: "The chances are that the first glass goes down without even touching the sides of the mouth."

Jancis Robinson

## Travel variations across Europe

Hotels and airlines are busy promoting discounts, but companies are under no illusions that travel still accounts for a big slice of their costs whatever is on offer. A study by

market researchers Mori for travel agency Thomas Cook says that travel is the third biggest corporate expense in Europe after salaries and information technology.

Almost half the 298 companies questioned had a firm policy to control corporate travel, but the details varied by country and business sector. Banking and finance companies are the most likely to impose a company-wide travel policy.

The UK had the highest proportion, 59 per cent, of companies where travel policy was made at the corporate level, and the second highest, 25 per cent, with the individual traveller having the sole control. The remaining companies left

decision-making to departments or a combination of individuals and departments.

Germany, by contrast, relied on departmental rules more than other countries and had the second lowest level of control, 30 per cent, at the corporate level. Other national characteristics included: French companies' enthusiasm for driving a hard bargain with the travel agency, while the Swiss and Swedes were least concerned about money.

Four out of five Italian companies rated it important or very important for the agent to be nearby, a factor which was hardly relevant for Swiss, Swedish and Dutch companies. Swiss companies are keen on their travel agents taking a back seat in travel management, while the UK, Sweden and France want their agency to be "proactive".

Daniel Green

ARTS GUIDE



Samuel Brittan

# Treasury and Bank in halfway house

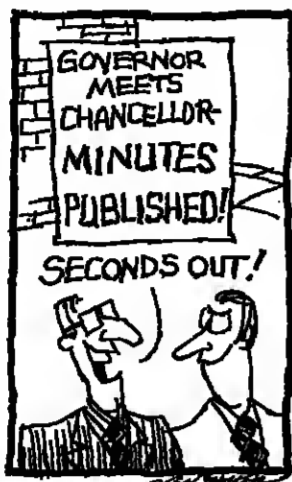


Once upon a time I used to advise fellow economists that the sure way of securing prominence for an article was to say that there was a difference between the UK Treasury and the Bank of England - or if the writer wanted to be pedantic, a difference of emphasis, as no two institutions ever entirely agree. This strategy will have to be reassessed, although not entirely abandoned, in view of the fact that the two organisations have dipped their toes into the waters of greater openness. The right attitude now is one of qualified rapture tinged with irony.

The first serious move, taken over a year ago, was the publication of the Bank's independent quarterly Inflation Report, which the Treasury is now "only shown in its final form". Then last November the Bank was given discretion over the timing of interest rate changes - the substance is still decided by the chancellor. Finally, there was the decision to publish, after a gap of six weeks, minutes of the monthly Monetary Meeting between governor and chancellor.

The plan to publish the minutes has been around about a year. The final decision was not made until after the disagreement between chancellor and governor in February over the former's proposals to cut base rates by 1/4 per cent. When the chancellor saw that the minutes recording this could be published without disaster he recognised a test case and pressed the green light. In fact, the disagreement took a second day to resolve, and officials toyed with the idea of pretending that the second meeting never took place until wiser counsels prevailed.

The published minutes begin with an anodyne set of notes on recent developments based partly on the Treasury's own Monetary Report, which is published on the same day and has now been jizzed up in appearance. There then follows the



opening remarks of the governor, Eddie George, set out fairly fully. Mr George makes sure of this by handing over a full set of his speaking notes to the Treasury secretariat. After that comes the chancellor's own assessment, often more briefly given. Here, however, a minor element of fiction enters. For the chancellor, Kenneth Clarke, usually encourages the Treasury's chief economic adviser, Prof Alan Budd, to lead off for the Treasury and comes in himself somewhat later. The rest of the discussion is given as a series of separate and unrelated points, not attributed to anyone. The final paragraph is called "Conclusion" and contains the chancellor's summary and decision.

In fact there are quite a large number of people in the room during this bilateral meeting, including the Treasury's permanent secretary, press advisers, and Sarah Hogg from the prime minister's office. This makes the preliminary meeting, between Treasury and Bank officials to prepare the ground, all the more crucial; and one is assured that these discussions are more systematic and less pointillist than the chancellor-governor meeting. There are good hopes of the official anonymity being penetrated. For instance, at the February meeting, where the chancellor and governor disagreed over a base rate cut,

Kenneth Clarke complained that the "advice" he received was too cautious, but in no way exempted his Treasury officials from this stricture.

The UK minutes obviously follow the model of the Fed Open Market Committee, but do not go as far. For the Fed lists who voted for and against the final decision. But it is in London only where one person has a vote - the chancellor (presumably the prime minister can whisper in his ear).

The timing of the monetary meeting - a day or two after the publication of M4 figures - is itself a historical hangover, dating from the time when the Treasury was still trying to use this aggregate, which consists almost entirely of notes and coins, as its main monetary target. Now it is but one of many indicators that are examined. Indeed, the most important clutch of indicators, such as retail sales, more widely based money and credit, manufacturing production, unemployment and earnings and producer and retail prices, all come out around the middle of the month.

Obviously, the two main characters are role playing. Kenneth Clarke fully intends to let Eddie George take the initiative when the issue is whether to raise interest rates. The governor, however, is not quite so reconciled to waiting for the chancellor to propose interest rate reductions. The base rate cut of January 1993 occurred, of course, before the publication of minutes. But it was triggered by the Bank's concern over the small's pace of economic recovery.

The more typical February 1994 debate was resolved by making the base rate cut one of a quarter per cent. This is fine, as far as it means smaller and more frequent changes, which could make monetary policy one degree less politicised. But it is far from fine if it means that disagreements are to be resolved by splitting the difference. Both in relation to Bank of England independence and in relation to greater transparency, the present arrangements are all too clearly a halfway house.

Workers at the cashmere spinning company Todd & Duncan in Kinross, Scotland, have just won an 8.5 per cent pay rise, more than three times the current inflation rate of 2.3 per cent.

Pay rises such as this have contributed to the recent upward trend in UK average earnings. Last October, earnings were increasing at an annual rate of 2.1 per cent, but by February, the latest month for which figures are available, the rate had reached 4.4 per cent.

But as pay-setting enters its busiest season in Britain, there is only a glimmer of anxiety among employers about the possibility of wage inflation being spurred by the strengthening recovery and decline in unemployment.

The relaxed mood of Mr Neville Barnes, personnel director at Todd & Duncan, is part of the explanation. Instead of managing 440 workers for the company's most hectic production period from February to September, as he did last year, he now has only 360 workers producing the same amount of cashmere.

Pay for the 360 is now based on a system of annualised hours, which allows managers to cope more efficiently with the seasonal peaks and troughs of consumer demand, and obviates the need to employ temporary contract workers. "This way you can also reduce excessive overtime during one part of the year and short-time working at another," says Mr Barnes.

The 8.5 per cent pay rise - a one-off reward for shifting to the new system - is more than paying for itself through higher productivity, so labour costs per unit of output are lower than last year.

Across manufacturing industry as a whole, unit labour costs are no longer falling, as they did for periods of last year, but they are scarcely rising. Average earnings increases of about 4.5 per cent are being almost matched by productivity gains.

According to the Confederation of British Industry it is such gains that are driving up pay, and not the slight upturn in inflation (now heading towards an annual 3 per cent) or even the recent increases in tax and national insurance contributions.

Nevertheless, the slight rise in pay settlements and the likelihood that unit labour costs across the economy as a whole will increase by at least

David Goodhart says the upward trend in UK average earnings could be a matter for concern

# The pay demon not yet dead

2 per cent this year is causing some concern among employers.

"There is a danger that the old inflationary habits will reappear as the recovery gets under way," says Mr Ian Thompson of the Engineering Employers Federation.

Even small increases in unit labour costs may be bad news, he says. "To remain competitive in some sectors you need falling unit labour costs so you can pass on lower prices or higher quality to the customer."

The CBI, too, which was recently claiming that British pay-setting was now more disciplined than Germany's has done an about-face. After a period of pay laxity induced by unification, German unit labour costs are now falling, and Mr Howard Davies, the CBI's director-general, warns that "other countries in Europe are now tackling their cost competitiveness in a determined way".

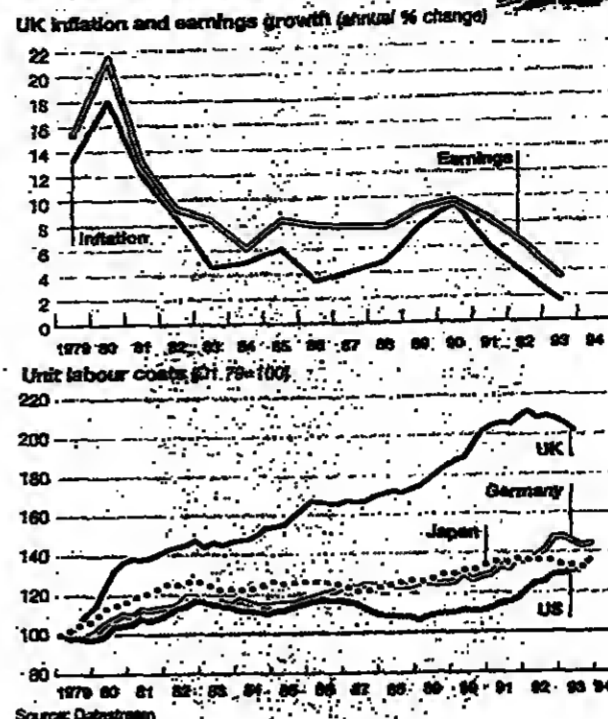
While employers are not yet talking about a new wage-price spiral, they are markedly less sanguine than the government, which continues to claim that inflationary pay bargaining - and even the annual pay rise - is a thing of the past.

The chancellor, Mr Kenneth Clarke, last week celebrated the steady decline in collective bargaining (which now covers fewer than half of all employees) and the idea of the "going rate".

"It has taken over a decade for both employers and employees to accept that an annual pay rise need not be inevitable," he said. Inflation continues to set a floor beneath pay rises for the large majority of employees, however. And, as Mr Kevin Carver, an economist at Morgan Stanley, the US investment bank, says: "Real wage growth has been substantially stronger during this recession than during the last."

The low absolute level of earnings increases has disguised the fact that, relative to inflation, wage growth continued strongly through the recess-

## UK pay: looking up



sion. According to Mr Gardiner, real disposable earnings rose only 0.8 per cent in 1990-92 but 7.8 per cent in 1991-93.

"Employers and employees are tacitly colluding, at the expense of the unemployed, to keep wages and prices higher and output lower than it could be," he says.

Events at Todd & Duncan, where 80 jobs (albeit seasonal ones) have gone, appear to support this view.

The Bank of England, too, warns the government that the UK's pay-setting system remains biased against employment creation. In its latest inflation report, the Bank

writes: "Wages are still strikingly unresponsive to changes in unemployment. Either the labour-market reforms have yet to bear fruit, or other forces of inertia are at work to offset them."

The most important factor preserving the bargaining power of employees may be the scarcity of their skills and an unwillingness to recruit from the ranks of the unemployed... those in work, whether members of unions or not, will still be able to push for real wage increases that, in aggregate, keep others out of work."

Skill shortages helped to stimulate wage inflation in some sectors at the end of the 1980s, and there are some signs that they are now returning. According to a recent Department of Employment survey, 17 per cent of employers felt that the skills of their existing workforces were inadequate to meet business objectives.

But there are more prosaic

reasons for the recent upward drift in pay. Last year pay negotiations were dominated by a continuing decline in inflation, stubbornly high unemployment and a 1.5 per cent pay policy in the public sector.

This year none of those conditions applies. Inflation is rising slightly, unemployment is falling, and despite the overall pay bill freeze in the public sector, most workers will receive rises of close to 3 per cent.

Further, as Mr Bill Callaghan, the chief economist at the Trades Union Congress, points out, many workers will try to claw back the effect of income tax and national insurance increases this year through higher pay. One recent two-year pay deal - at the tractor maker Massey Ferguson - has recognised the effect of the tax increases by giving a higher rise this year than next.

The scope for clawing back the effects of tax rises is probably limited, however. Many economists expect earnings to rise by just over 4 per cent in 1994 with inflation at just over 3 per cent for the year. But the combined tax rises will cut income by more than 2 per cent, leaving a net reduction in income of more than 1 per cent.

The final factor contributing to the pick-up in pay is the tenacity of "pay drift" - the gap between what is agreed in settlements, still running at 2.5 to 3 per cent, and actual earnings increases, running at about 4 per cent.

Over time payments are usually an important part of the gap but overtime is falling at present. Bonuses and profit-sharing, especially in the financial services sector, may be a more relevant explanation for "pay drift" and may lie behind the jump in service sector earnings from 3.1 per cent in January to 4.8 per cent in February. Some economists worry that whatever the benefit of an increase in performance and profit-related pay, it may bring the cost of permanent upward pressure on earnings.

Thus the message to employers from organisations such as the CBI is: do not fritter away the competitive gains of the past few years.

Mr Robbie Gilbert, employee relations director at the CBI, concludes: "Given our history, one can never be confident that our pay problems are behind us."

## LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

## Erroneous 'folklore' on consultants' value

From Sir Peter Levene.

Sir, There are some erroneous assumptions being peddled as part of an emerging folklore about the UK government's use of external consultants. I would like to put some more balanced points down for the record.

Over the past 10 years there has been a significant increase in the use of external consultants by the public sector. But "consultancy" is a very difficult activity to define and many of the blurred boundaries have found their way into the assumptions which have been incorrectly matched up in recent articles in the press.

The government is a significant purchaser of external advice and does spend a considerable amount in this area, as it does on research and on

purchasing contracted services. It is, therefore, important and timely to be looking at the use of external consultants so that the government can be sure the best value for money is being obtained. In some cases, the money is well spent; in others we are not so sure. The Efficiency Unit scrutiny team is examining whether the purchasing of external advice can be improved. Are there best practices developed in some areas of government which might be shared more widely? Are there management systems which might be put in place to assess benefits and value for money in a more quantifiable way? These and other questions are part of the team's brief.

Different sources of advice should not be seen as being mutually exclusive. They can be complementary, with the government purchasing expertise which does not reside within the public sector. At other times drawing on a different range of experience would be prudent and desirable. Many consultancies are, of course, not aimed at producing savings, though in the long run savings may be achieved. One could cite here improving customer services, developing training systems and designing strategic management systems. These lead to benefits but they are not always quantifiable under a direct bookkeeping type "savings" heading. It would be foolish indeed to expect government to put a rigid straitjacket over the decision-making process, and insist

that only one source of advice should be considered valid expenditure of the taxpayer's pound.

This is a good time to take stock and to look at the value for money obtained from using external consultants. But it is much more helpful if this debate takes place on the basis of a final report, with the supporting data assembled and displayed, rather than at an intermediate stage when not all of the evidence has been assembled and when the report is still some way from reaching final conclusions.

Peter Levene, prime minister's adviser on efficiency, Efficiency Unit, Cabinet Office, 70 Whitehall, London SW1A 2AS

## Repairing the fault line

From Mr Walter Grey.

Sir, It hardly needed the latest Tory gift over a single European currency - a natural corollary of the single European market already in being, but still a remote prospect - to drive home Philip Stephens' point about the re-emerging "fault-line" in Europe ("The clock starts to tick for Major", April 30).

We have, of course, had other alleged fault-lines, notably with regard to the European Exchange Rate Mechanism (though here, in the events leading up to Black Wednesday, Britain's own

behaviour was at least as much at fault as anything else). But the real fault-line in British politics now, it seems to me, runs through No 10 Downing Street, whose occupier - to adapt a remark about an earlier ruler by the Roman historian Tacitus - seemed eminently fit to hold the job that goes with it had he not done so. Clearly, it is up to the Tory party itself, in the first place, to repair that basic shortcoming.

Walter Grey, 12 Arden Road, Finchley, London N3 3AN

## VAT answer to late payers

From Mr R V Simons.

Sir, One aspect to the late payment of bills which seems to have received little attention is the effect of VAT.

Large companies remit to Customs & Excise each month the difference between the VAT which they have charged (output tax) and that which they have been charged (input tax). If they get paid before they pay their suppliers (for example, retailers), Customs & Excise tops up the benefit to their cash-flow by crediting them with the VAT on invoices which they have not in fact paid.

This suggests a simple lever which the chancellor of the exchequer could use to encourage prompt payment of bills: if a company regularly fails to pay its bills within 30 days it should be switched to a more onerous VAT regime. Output tax would still be due to Customs & Excise based on tax point but input tax could only be claimed in respect of bills actually paid.

R V Simons, Robert Simons, Perth House, Southbury Road, Leighton Buzzard LU7 7RN

## Costings on works councils exclude a number of obligations

From Mr Graham R Mackenzie.

Sir, Bert Thierion, general secretary of the European Metalworkers' Federation (Letters, April 29), has let the cat out of the bag. His costings for the 1990 European works councils meetings EMF has organised are similar to EEF's. The similarity ends if you know that EMF's costings exclude the pay of workers' representatives to attend meetings, advisers' costs, management attendees' time and costs, and all the costs of preparation and reporting back. The obligations imposed on a company by the current proposal involve far greater expense than the meetings EMF has organised,

as it well knows. We believe our estimate of up to £250,000 per meeting may well be conservative.

Mr Thierion also chastises Unice, the European employers' organisation, for suggesting that works councils would delay decision making. He says many existing European works councils agreements provide for consultation procedures and there have been no reported delays. How odd then that the European Trades Union Congress's own case study should conclude that "most arrangements provide only information, typically covering corporate strategy" and "consultation is rare and nego-

tiation is non-existent". European business should be aware of the trade union objective. ETUC, to which EMF belongs, passed a resolution in 1988 on European works councils, which called for "the right for workers' representatives [trade unions] to obstruct any decisions which are taken without prior negotiation".

Effective information and consultation of employees is vital for any business. The Commission's own research shows that there is no single solution. Multinationals have different methods of informing and consulting employees, reflecting domestic circumstances and cultural differ-

ences. These should be encouraged with no threat of standardised and centralised models being imposed by legislation.

EEF calls on member states to reject the latest Commission proposal on European company committees. If member states are intent on pursuing this legislation, they should listen to the concerns expressed by companies and accept amendments to the proposal put forward by Unice, EEF and other employer bodies. Graham R Mackenzie, director-general, Engineering Employers' Federation, Broadbury House, Tottell Street, London SW1

## MANAGING THEIR OWN INVESTMENTS WAS NOT QUITE AS STRAIGHTFORWARD AS THEY HAD FIRST SUPPOSED

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## FINANCIAL TIMES

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Monday May 9 1994

## Growth and the Tories

The economy must provide some of the few rays of hope left for Britain's prime minister. But will it be enough to save him and the Tories? Two questions arise: first, what sort of growth will be delivered in the near future and, second, will this satisfy the voters? Unfortunately for the government, growth is unlikely to be impressive enough to win back its supporters.

Recent evidence does show a steady recovery, with low inflation. Gross domestic product grew by 0.7 per cent in the first quarter of this year to regain its pre-recession peak of four years ago. Unemployment is falling, while underlying inflation is at its lowest for 25 years. This is good news, but it is less encouraging on closer inspection. Much of the growth in GDP was due to a surge in North sea oil and gas production, while output of manufacturing is still 4.2 per cent below its peak in 1980. The fall in unemployment still leaves 2.2m people out of work, the jobs that have been created in the recovery have tended to be part-time or self-employed; and the number of employees in employment has fallen.

The greatest uncertainty concerns the effects of last month's tax increases. If consumers were to take fright, the UK's largely consumer-led recovery could be checked. Early evidence is inconclusive. Consumer confidence was near to a record low in April, according to a Gallup poll, but this report is at odds with official data on consumer spending. Retail sales grew rapidly in March and were up by 3.8 per cent on a year earlier, while narrow money, normally regarded as a good coincident indicator of consumer spending, increased by 6.2 per cent in the year to April. Lending by banks and building societies expanded rapidly in March. But much of this was due to lending to the financial sector, while borrowing for personal consumption remained weak.

## Satisfy public

All in all, the recovery is likely to weather the tax rises and the government forecast of 2% per cent growth in the economy this year is also likely to be met. The problem for Mr Major is that this may not be enough to satisfy the public. After enjoying growth

## Jobs agenda for Europe

To focus attention on everything is to focus it on nothing. This, along with an unwillingness to confront grim choices, has been the biggest failure of the European Union's response to its employment problem. The White Paper on growth, competitiveness and employment, discussed at the Brussels European Council last December, was one example.

Another is a report last week from the UK's House of Lords select committee on the European Communities. Few stones that might conceal an idea or a new programme have been left unturned. The result is not so much wrong as unhelpful.

European economic growth is not the burning issue over the past 20 years, it has compared well with that of the US. Nor is it European competitiveness: in relation to an entire economy this concept lacks much meaning. Nor is it even European macroeconomic policy: misguided though it has recently been, this too shall pass. The issue is that, over the past 20 years, growth in employment has been stagnant, while the overall rate of unemployment in the European Union has risen, cycle by cycle, and now stands close to 12 per cent. This is the uniquely European disease, one that has deeply infected social and political life.

The defect of the White Paper was that it provided neither a focused discussion, nor clear analysis, nor strong policy recommendations. The House of Lords report fails to remedy these defects. It recognises that "neither lack of growth nor loss of competitiveness on their own are sufficient to explain the comparatively high level of structural unemployment". But it avoids the central question, which is whether and, if so, how greater job creation can be reconciled with Europe's much prized regulatory, tax and welfare regimes.

## Commendably blunt

The latest World Economic Outlook from the IMF shows what is needed. It is commendably blunt. "While some policies to increase the flexibility of labour markets have recently been adopted in Europe," wrote the IMF, "most of these measures attempt to correct distortions stemming from labour

rates of 4 per cent or more for successive years between 1986 and 1988, only to be pummeled by a long recession, voters feel cheated. What is more, although output has reclaimed its pre-recessionary peak, it is still well below levels people expected before the recession. Worse still, despite the recovery, real personal disposable income in the third quarter of last year and grew by a paltry 0.1 per cent in the fourth quarter.

## Taken fright

Even though the public at large has barely registered the recovery so far, financial markets have already taken fright. The continued rise in bond rates - now two percentage points higher than during the trough at the turn of the year - shows that investors at least believe recovery is well-established. They also expect inflation to start rising. The gap between yields on index-linked and conventional gilts, which is a good indicator of inflationary expectations, is up by more than one point since January, to 4.7 percentage points.

These fears are probably exaggerated. Underlying inflation is quite low. Import prices, producer prices, pay settlements and unit wage costs all remain subdued. There is also spare capacity in the economy: the International Monetary Fund estimates an output gap of 4.5 per cent. If correct, this should allow the UK several years of non-inflationary growth. The only significant indication of a pick-up in inflation is the rise in the rate of growth of average earnings. This increase, from 3.0 per cent in November to 3.25 per cent in both December and January, indicates that the trough in earnings has passed.

Financial markets may turn out to be in an unjustifiable tizzy, but lack of credibility is itself a constraint on policy makers. They may be forced to raise short-term interest rates far earlier than they would like. Yet even if economic growth can be sustained at present rates, the necessary increase in taxes will still prove unpopular. The rise in pre-tax real wages must also remain modest. If increases in employment are to be sustained, in short, dissatisfaction is bound to remain a risk. Which is not good news for Mr Major and the Tories.

## Irrelevant remedies

What then is to be done? First, attention must not be diverted to irrelevant remedies. French experience has, for example, demonstrated that training is insufficient to lower unemployment if minimum wages are too high. Similarly, Europe's investment rates have been above those in the US and, even so, its jobs record has been far worse.

Second, overhaul of labour market regulations and tax and benefit systems must be given pride of place. The bulk of the long-term unemployed are to be found among the low skilled. There is no mystery about why this is so. These people are discouraged from seeking work by the generous benefits they receive when they do not work and by the high rate at which benefits is withdrawn when they do. Simultaneously, employers are discouraged from offering work by the cost of labour, partly determined by the taxes and charges they have to pay, not to mention the regulations that govern their ability to manage their labour forces flexibly.

Analytically, the solution is clear. It is to reduce the wedges between what it costs an employer to employ someone and the benefit an employee derives from obtaining such employment. This can be done by radically reforming the subsidy regime, to promote employment. It need not necessitate the ending of benefits.

Without radical action, European countries are accepting the persistence of high unemployment. That may be their least bad choice, given political constraints. If so, policy-makers should at least be honest about what they are doing. They must not be allowed to pretend that today's bloated policy agenda will do much to eradicate Europe's unemployment black spot.



Home-grown businessmen such as soda pop boss Zdenek Svehla (left) and textile plant head Lubomir Smejkal are driving economic growth in the Czech Republic

Mr Jiri Pospisil, a director at the Czech National Bank, seems a hard man to please. He says he is puzzled by industry's "slow" response to growing domestic demand. Although exports from the Czech Republic rose 23 per cent last year, he is disturbed about a 10 per cent rise in imports. "Perhaps the bank should talk to the companies to get a clearer picture," he suggests.

He might start with Mr Armando Tatar, feisty founder of a small, two-year-old contact lens maker in Brno, the republic's second city and oldest industrial centre. He competes with "western quality at Czech prices" against three state-owned operations. "If I had the money," he says of his moribund but dominant competitors, "I would buy them."

But local banks want loan security of between 100 and 200 per cent and even then demand interest of up to 18 per cent, he says. Foreign banks are little use. "They are only interested in foreign investors, not in us. They always say 'we can't assess the Czech risk'."

Risk is one thing, but as Mr Pospisil acknowledges, the lack of a fully convertible currency - something only the central bank and government can correct - is a big obstacle to the establishment of an efficient primary market and to the flow of foreign funds to finance economic revival.

Mr Zdenek Svehla, boss of Prague's Zátka soft drinks company, privatised in mid-1993 with a Kcs10m loan at a relatively generous 14 per cent, agrees that raising capital is the entrepreneur's worst problem. But Czech customers' tendency to ignore invoices is a close second. "If we could collect 50 per cent of our receivables we would have no worries," he says.

Zátka's only present recourse is to stop deliveries. Prague lawyer Mr Bohuslav Klein says a company seeking redress has to wait five years for a hearing in the over-loaded courts. Hence some adopt more unconventional approaches,

## Old ways hamper new prosperity

Entrepreneurs in the Czech Republic are being held back by a shortage of capital, says Christopher Parkes

be says: "Pay by Tuesday or burn on Wednesday," for example.

While shortages of capital and the inadequacies of the legal system are serious obstacles to development, they are not insuperable. Mr Tatar, for example, was helped by acquaintances in the German optometric business, who gave him machinery on a pay-when-you-can basis.

Mr Lubomir Smejkal, chairman of OMB, a busy textiles plant in Brno, has a more formal agreement with customers in Germany and Austria. Days before his old, state-owned employer closed on December 31, 1991, he and his colleagues took with them their know-how, customer address books and the machinery to keep on producing their range of work wear and camping equipment. Production restarted on January 2, 1992.

Valuing this source of western quality goods at Czech prices, OMB customers funded the purchase of sewing and other machinery on a pay-as-you-go basis. "At the end of this year it's all ours," says Mr Smejkal. OMB also has access to foreign bank credits secured against customers' guarantees of payment and since all output goes to Austria and Germany, there is no trouble with late or non-payment.

In an economy where old ways persist - turnover is still equated with production by some - OMB seems a model of capitalist correctness. Mr Smejkal made Kcs15m pre-tax profit on sales of Kcs20m in 1992. Last year, when turnover soared to Kcs46.2m, profits were reduced to Kcs500,000 as earnings

were ploughed into new machinery.

In the first quarter of the current year OMB made Kcs2.3m pre-tax profit on sales of Kcs11.5m, and Mr Smejkal is now confident enough to consider buying new machinery in the domestic market. "We might be ready to try selling here by the end of this year."

But OMB has yet to win complete control over its destiny. Its offices, workshops and stores are in a corner of a giant state-owned weaving mill. Rent is a mere Kcs750,000 a year, but OMB's tenure could be put at risk by the outcome of negotiations for privatisation of the mill.

ayerische Vereinsbank, provider of DM200,000 in credit lines, has promised to help find a way out if OMB must set up in more expensive quarters. When pressed, Mr Smejkal says he may surrender a stake in OMB to "our German friends" as a last resort. But "management interference" is unacceptable, he insists.

His attitude reflects rising self-confidence among new entrepreneurs, whose private businesses now account for a quarter of gross national product. They are driving growth, forecast at a real 3.5 per cent this year after four years of decline.

Mr Smejkal's resistance to outside "interference" reflects resentment against the waves of wheeler-dealers - known locally as "Johnnie Walkers" - who swept through in the early days of economic reform. Mr Smejkal's rejection of outside

management also reflects a feeling that the neighbours' influence is already deemed strong enough. Mr Stephen Bligh, a partner in KFMG's Prague office, says in terms of numbers of investors Germany will "inevitably" be the biggest foreign business presence in the republic. Apart from heavy-hitters such as Volkswagen, which has a 30 per cent controlling stake (plus further options) in the Skoda car business, hundreds of smaller companies have "infiltrated" the country.

Although real economic growth is expected to start this year, the republic's "industrial Wirtschaftswunder" has yet to materialise, he says. The second stage of privatisation is due shortly and should be complete in two years, he reckons. Restructuring will last another five.

There are signs this phase will be painful. It is a measure of the success of the private sector so far that it has absorbed almost all workers displaced by privatisation. National unemployment is less than 4 per cent and nil in industrial centres.

But there is an awareness of a big overhang of hidden unemployment in the utilities, chemicals, agriculture and other state industries which remain to be sold off. Local experts say the best workers and managers from these businesses have already left for new jobs, and there are few opportunities for the unskilled residue.

Meanwhile, shortages of skilled labour and management are apparent. The ABB-PBS boiler works in Brno, taken over last year by the Swedish-Swiss group, Asa Brown

Boveri, pays wages 10 per cent above local engineering rates to attract talent. Lawyer Mr Klein says Prague-based managers can already earn as much as their German counterparts and a secretary can earn two-thirds more than the national average wage.

Although overall labour costs are still low, the new Czech capitalists can see this gives them only a transient competitive edge. Internationally and none domestically. Increased productivity and quality are now the goal.

At ABB-PBS, chief executive Mr Richard Kuba plans in three years to thin the workforce of 4,000 to 3,300 while expanding volume output three-fold and matching the parent's quality standards. At the other end of the scale, the strategy at Mr Tatar's eight-man lens factory bears some hallmarks of that at ABB. High quality means he must pay high prices for imported German raw materials, and high wages for skilled labour, he says. "If I am to sell at the same prices as the state factories I need much higher productivity."

The quality-price relationship is also crucial to Zátka's approach in the soda pop trade. "We base our future on the quality of our products," says Mr Svehla. That depends on fruit concentrates shipped from Israel and Greece.

Although he competes against 130 indigenous companies and foreign invaders which together can quench the national thirst twice over, Mr Svehla has few qualms. He can beat the locals on Coke, Pepsi and Schweppes, he accepts "we will never beat them on image or volume", but Zátka products are 50 per cent cheaper.

Without access to the imports which seem so to irritate the central bank, Mr Svehla and Mr Tatar would have been hard-pressed to compete and stay in business. They may tell Mr Pospisil, should he call, that access to imported capital on reasonable terms may also give home-grown entrepreneurs the opportunity to build on their modest beginnings.

## Dollar policy still lacks consistency

"My administration is setting a medium-term goal of stable prices - zero inflation. We believe a further reduction in inflation is the best way to secure higher living standards and a sustained reduction in unemployment. To this end, we would welcome an appreciation of the dollar. We are 100 per cent behind the Federal Reserve in its efforts to prevent the economy overheating and protect the currency. We accept that a substantial further rise in short-term interest rates may be required."

This imaginary statement is the kind of signal that President Bill Clinton needs to send if financial markets are fully to regain confidence in the conduct of US economic policy. To have maximum effect it would need to be swiftly followed by a half or better still - a full percentage point increase in short-term interest rates. Markets might then believe that the Clinton administration puts the same priority on price and exchange rate stability as most other governments.

Needless to say, no such statement was forthcoming from the Oval Office last week. But the US Treasury did offer markets half a loaf. When the Fed and 16 other central banks joined forces to sup-

port the dollar last Wednesday, Mr Lloyd Bentsen, the Treasury secretary, issued a statement sharply different in tone from previous pronouncements. He said the administration saw "no advantage in an undervalued currency," signalling for the first time a concern about the level of the dollar rather than its rate of change.

By contrast, the previous Friday, he had stuck to the old formula that intervention was needed to counter "disorderly markets" - a code meaning the Treasury wanted calmer trading conditions but was not trying to alter the direction of currency movements. As such it was an invitation to markets to renew their attack on the dollar.

Mr Bentsen's recantation - orchestrated by Mr Larry Summers, the Treasury undersecretary - is regarded within the US Treasury as a bold departure from previous policy. By explicitly saying he did not want an undervalued currency, Mr Bentsen was attempting to put a floor under the dollar.

Yet it makes little sense to take a strong position on the dollar without also adopting a consistent line on interest rates. Intervention is rarely successful unless backed by more fundamental policy shifts. One of the principal reasons why



MICHAEL PROWSE  
ON AMERICA

the dollar has been weak recently is that financial markets regard US monetary policy as significantly looser than that in Europe and Japan, once allowance is made for countries' different positions in the economic cycle.

The US has entered its fourth year of expansion and is rapidly approaching capacity limits; elsewhere output is far below potential because other countries are still struggling to emerge from recession. Yet real interest rates are lower in the US than in either Germany or Japan.

The administration was annoyed in early February when the Fed signalled the first increase in short-term interest rates in five

years. It did not think a tightening of policy was then required and it only grudgingly accepted subsequent rate increases. The White House blamed the Fed for soaring bond yields and turmoil in the markets. Belatedly, administration officials are now perhaps beginning to grasp the political advantages of slowing growth this year so as to prolong the economic expansion until election day in 1996. But having ridiculed the notion that inflation might rise they will have to work hard to convince markets that their attitude has really changed.

In the meantime, the degree of market volatility will depend on the Fed's willingness to put teeth into Mr Bentsen's dollar policy. After Friday's very strong employment report, there is no longer any doubt that it needs to tighten monetary policy again. Since January the economy has generated 1m new jobs, a marked acceleration in the pace of job creation from the second half of last year when economic growth averaged nearly 5 per cent at an annual rate.

Other data last week signalled that the economy is rebounding strongly from a first quarter weakened by bad weather and other distortions. The Purchasing Managers' Index - a guide to the health of

manufacturing - rose more sharply than expected. And the Fed released a notably bullish Beige Book assessment of regional trends. Highlights included double-digit annual increases in retail sales in many areas, brisk housing markets and "near capacity" production of cars, vehicle parts, steel and building materials. Ominously, there were reports of significant upward pressure on raw materials prices.

The economy may now well be growing at an annual rate of 4-5 per cent in real terms - far above its long-run potential. Some analysts expect annualised growth this quarter of 6 per cent. With the dollar weak and credit growing briskly, the case for a decisive tightening of monetary policy could hardly be stronger. Wall Street is looking for an increase in short-term rates of half a percentage point, preferably this week but no later than the Fed's May 17 policy meeting.

If the Fed delivers, it may buy temporary calm in foreign exchange markets. Ultimately, however, markets want to be reassured that Mr Clinton understands the economic facts of life. The president needs to declare his personal commitment to low inflation, sound money and a strong dollar - and then encourage Mr Greenspan to play tough.

## A last puff for Fidel?

Has Fidel Castro really given up smoking cigars? And if he has, what will make him change his mind and light up one of his favourite Cohibas?

These are not the sort of questions that the New York Times or CBS would put to Cuba's reclusive president. But then they did not get the scoop, and New Yorker Marvin Shanken, owner of a two-year-old special interest magazine, *Cigar Aficionado*, did.

Like most serious smokers, Fidel can remember the day he gave up - August 26 1985. But hadn't he ever lit up in the privacy of his home? No, said Castro, arguing that it would involve several accomplices - somebody to buy the cigars, another to hide the ashes. Clearly, Shanken found this hard to believe. Not even a puff?

Castro: "No. No."

Shanken: "Not even a little puff?"

Castro: "Not one."

So under what circumstances would the president smoke his country's most famous product? He might be tempted to smoke a cigar of peace with US president Bill Clinton if the US market was re-opened to Cuban cigars. But he didn't hold out much hope.

## Novel delights

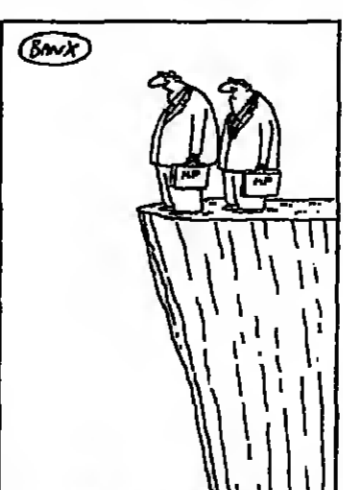
A visitor to the smart new Gresham Street headquarters of College Hill Associates, a London PR firm, was much taken with the fancy wallpaper in one meeting room, cunningly disguised, *trumpet* of fashion, as book spines. The "shelves" are adorned with classic authors like Dumas, Shaw, Racine and Austen. Austin?

Must be the little-known British linguistic philosopher J.L. Austin, rather than the more famous Jane Austen. Adds a touch of class to the place, doesn't it?

## Starck solution

Moving offices from one side of town to the other? Philippe Starck, the superstar French industrial designer, has solved what can be a traditional corporate headache with some style. Having transferred his headquarters to

## OBSERVER



"I was behind John Major all the way"

Isy Les Moulinaux on the outskirts of Paris, he compensated his employees for any upheaval in their travel arrangements by giving each of them a shiny silver motorcycle, or moped, so they can whiz through the traffic jams to get there.

## Suction power

Those seeking straws in the wind concerning the fate of Britain's prime minister John Major will

clutch at this latest one. Apparently he has fallen almost as low in the eyes of the image-makers as that other great public relations disaster, Hoover. In a survey of 100 marketing directors around the UK, Le Fevre Williamson found that Hoover got 11 per cent of the votes for worst PR image, closely followed by Major at 7 per cent.

## Lucky for some

Call it foolhardy, call it courage; few politicians would schedule a keynote speech by an embattled political leader on a Friday that fell on the 13th of the month. The Scottish Conservative and Unionist party has done just that for John Major's closing rally at this week's Inverness party conference. Ian Lang, Scottish secretary, doesn't inspire much confidence with his explanation that "we control a lot of things, but we don't control the calendar". Isn't that supposed to be one of the few things left that his party can control?

## Green surprise

Europe's "green" parties come in all sorts of political shades, but none comes near to matching the performance of the Hungarian "greens". Instead of campaigning

for population control, the Hungarian greens' TV broadcasts call on Hungarian men to do the "daily triple" with their wives.

The party does not spell out in detail what it is Hungarian men should do three times a day. But party officials believe it would "increase the birth rate and lead to a decline in homosexuality, prostitution and thus divorce rate".

However, this brave rallying cry has yet to capture the imagination of the Hungarian electorate. Early returns suggest that the party has as much chance of capturing a seat as Britain's Screaming Lord Sutch.

## Idle chaff

Senator Kent Conrad of North Dakota has come up with a novel idea for concentrating Canadian minds on the protracted North American trade war over wheat and barley subsidies. "We've got 300 Manitowin Ills in North Dakota that we're ready to re-target and maybe that will get their attention," he recently joshed in a US Senate committee hearing.

Those who berate Canadians for lack of humour must think again, however. Hot after Conrad's quip, Canada's defence ministry now says it's scrapping the country's 1,449 nuclear air raid sirens. Top that, Senator.

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# FINANCIAL TIMES

Monday May 9 1994

 A FINANCIAL TIME  
 for change


## British banks in pilot scheme to dispense adverts with cash

 By Diane Summers,  
 Marketing Correspondent

Two leading UK banks are poised to cash in on their cash dispensers by using them as a way of selling advertising space and issuing discount vouchers.

Instead of a vacant blinking "Welcome, please insert your card" sign, customers will be greeted with an advertisement, which could be for a local store or a nationally available product. Coupons used to buy products at cut prices will be issued through the dispenser together with the cash.

It is likely that banks will combat criticism about potential lit-

ter by allowing customers to opt not to receive the vouchers.

The two banks, whose identity is being kept secret, are planning to test the scheme later this year at about 150 cash dispensers, according to Allmedia International, a company based at Kingston upon Thames, south of London, which has developed the system.

If the three-month trials are successful, the company hopes to market the system to other UK banks which together have more than 15,000 cash dispensers. The country's building societies, which lend money for homes and offer other financial services, could also be attracted to the

scheme, the company believes.

In the US, the National Bank of Commerce, Tennessee, is testing the idea, and Allmedia plans to approach banks in Spain, Portugal, Italy, France and Scandinavia.

Advertisers will pay an average of £110 (£160) a week for the exclusive use of a cash machine, which will issue a maximum of 2,000 vouchers during the week.

It will be possible to target particular cash machines to maximise the effect of the advertising. For example, a dispenser near a large music shop might issue vouchers for compact discs and audio cassette tapes.

On the reverse side of the

vouchers, banks will print their own, possibly linked, advertising.

A voucher that could be redeemed against a holiday, for instance, could also be used to advertise travellers' cheques. A car test-drive offer might also promote the bank's car loans.

Mr Steve Ross, Allmedia's managing director, said the advertising offered banks the chance to make money out of their costly dispensers. Manufacturers and retailers would be able to target consumers in the high street. "A computerised geographical information system will allow the advertiser to specify the machines their vouchers are dispensed from," he said.

## Mitterrand can't wait to unwrap historic project

David Buchan in Brest sees the 'launch' of the Charles de Gaulle

It was a weekend of false starts on historic projects for President François Mitterrand. On Friday he helped Queen Elizabeth open the Channel tunnel, which then promptly closed. A day later, he went to Brest to "launch" France's, and Europe's, first nuclear-powered aircraft carrier, but the Charles de Gaulle stayed firmly in drydock.

If five months seems a long wait to use the Channel, spare a thought for the impatient French navy which will have to wait another five years, until summer 1999, before the Charles de Gaulle is fully fitted out with all its weaponry and Rafale jets.

What the navy had to be content with on Saturday was the wrapping up of the carrier's hull and conning tower in a huge tricolour, and then a ceremonial "addressing" in the presence of Mr Mitterrand, and three of the people who would like to succeed him - Prime Minister Edouard Balladur, Paris Mayor Jacques Chirac and Defence minister François Léotard.

The carrier's real launch will take place out of the limelight in a week or so when tide and weather are judged right, because the navy wants to take no risks with the ship which has cost FF17.5bn so far, not counting an even more expensive hull

for the Rafales. Ironically, timing of the launch of this ship, symbol of France's independence on no-one's sovereignty, is very much dictated by a Dutch salvage company, which can only spare for a brief time its giant barge crane to lift the nuclear reactors into the ship.

But the 38,000-tonne carrier will be worth the wait. "European navies have some 200 frigates between them, but only ours has true aircraft carriers," said Mr Mitterrand. Though less than half the size of their US counterparts, French carriers are the only European ones capable of putting heavy planes into the air since Britain opted for the invincible class of mini-carrier with its aircraft carriers.

But France's Foch and Clemenceau carriers (32,000 tonnes) have each seen more than 30 years' service, and cannot take the heavier, 15-20 tonne version of the Rafale fighter/bomber coming into service in 1999. Equally significant are France's unrelenting ambitions for its own defence and that of Europe - shared as much by the socialist president as by the conservative

Balladur government - and the new importance it places on crisis prevention and power projection, which are classic rationales for aircraft carriers.

"There is no reason why 350m Europeans cannot develop together their own means of security," said Mr Mitterrand. But co-operation involves concessions, he told an audience of several thousand, which included Admiral Sir Kenneth Eaton, Controller of the Royal Navy. Referring to the Horizon project, in which France, Britain and Italy hope to build a dozen or so frigates together, the president said France's Horizon-class frigates would be the essential escort to the Charles de Gaulle.

But he warned of "industrial difficulties" which were preventing the project getting off the ground. French officials said defence ministers were delaying signing a formal memorandum of understanding, until an Anglo-Italian dispute over the radar had been resolved. Italy is offering the completed Empress system, while the UK claims its own Mesar system would be better still.

## GE bid wins Kemper

Continued from Page 1

hope of making a quick profit from takeovers.

Mr Matthis' letter had added to a belief that Kemper's board would be prepared to accept an immediate offer of \$5 a share. However, the GE Capital bid failed to flush out any rival offers, as some Kemper executives had hoped, and even at \$5 a share the deal is well above the \$4 level at which Kemper was trading until mid-March.

GE Capital said its new offer was dependent on a review of Kemper's troubled \$1.7bn real estate portfolio, and outstanding litigation against the company. The Kemper annual meeting, due on Wednesday, has been postponed until August 22.

## African bank

Continued from Page 1

ground for buck passing by bank staff," says the report. The task force urges African member countries to take a more active interest in monitoring the bank's financial health.

Mr Ndoye, in the last year of a second five-year term, has already prepared an action plan to respond to the report's recommendations.

## THE LEX COLUMN

## Shoring up the dollar

Last week's intervention to support the dollar seems to have worked for the time being, but it has done nothing to reverse the fundamental problem. Japan has a current account surplus and a capital inflow, while the opposite pertains in the US. As long as that continues the dollar remains vulnerable. The immediate assumption was that the Federal Reserve would accelerate its rate tightening in order to underpin the dollar. This may yet happen after Friday's strong employment data, but it is the Treasury which decides on intervention and is worried about the dollar. The Treasury has no control over interest rates. Any Fed decision on that score is more likely to be determined by domestic conditions than its perception of the dollar.

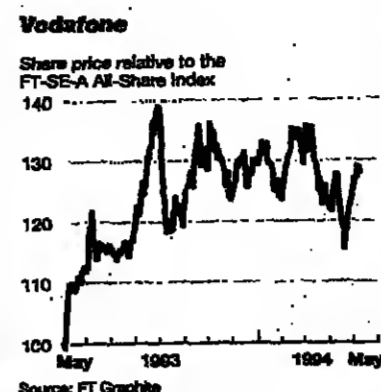
One of the Treasury's concerns, which is all the more understandable in the light of this week's borrowing operation, is that a weak dollar saps overseas demand for US bonds. Higher interest rates, of course, would make this problem worse in the short run. If the Treasury really does believe the dollar is under-valued, perhaps it should consider another course. It could cover part of the US budget deficit by borrowing yen.

That would both offset some of the capital flows which have been depressing the dollar and reduce the weight of supply on the US bond market. Moreover, with Japanese government bond yields more than three points lower than their US equivalent it could prove a cheap source of funds. The precedent is the foreign currency Carter bonds, issued when the dollar was under pressure during the 1970s. The dollar's subsequent recovery made the bonds an exceptionally good deal for the US taxpayer.

## IBM

IBM's revamp of its 40,000 salesforce has a laudable enough objective: to present "one face" to each customer. Too often the computer giant has confused its customers by sending in a different representative for each product. One IBM'er could be peddling mainframes, another data communications gear and a third personal computers - all to the same customer and sometimes in competition with each other. The structure also meant few sales people had a deep knowledge of their customers' businesses.

Under the reorganisation, 14 new divisions responsible for selling a full range of kit to specific industry sec-



Source: FT Graphics

tors such as travel, oil and health will be created. Though hardly an original idea - Hewlett Packard and Digital Equipment already operate in this way - the aim of getting closer to customers has its merits.

The snag is that IBM chief executive Mr Lou Gerstner has not felt able to go the whole hog. The new industry structure will co-exist with the old geographical and product structures. IBM's regional chiefdoms will remain, while part of the salesforce will still be organised on product lines. The result could be a tangled management matrix. One only has to look at the smart-up caused by a similar matrix at Digital to see the risks IBM faces. Mr Gerstner presumably concluded that a bolder shake-up would have ruffled too many feathers. While that may have been the right judgment, it serves to underline how hard it is to turn the IBM juggernaut around.

## Pharmacia

Sweden's decision to press ahead with the privatisation of Pharmacia must come as a relief to the company's management. The drugs group has been a pawn in a game of industrial chess ever since Volvo bought its stake nine years ago. The subsequent acquisition spree in Sweden and merger with Procordia can only have been a distraction from the serious business of running an international pharmaceuticals group. A trading margin of 14 per cent - against an industry average in the high 20s - hints at how much work remains to be done.

Rationalisation should allow Pharmacia to deliver higher earnings over the next year or two even if sales growth proves elusive. There is nothing in the company's diverse portfolio

of drugs likely to push it into the same growth league as Astra, Sweden's glamour pharmaceuticals stock. But neither does Pharmacia rely on a single blockbuster drug or face any damaging patent expiries. If management can deliver cost-savings, Pharmacia could be a low-risk bet during a difficult period for the sector.

With the shares yielding around 2.5 per cent, compared with nearly 6 per cent for Glaxo, international investors will have to be convinced of this logic if privatisation is to be a runaway success. The eventual sale of Volvo's 23 per cent stake - although at least 18 months away - and the government's remaining 10 per cent interest could make it difficult for the shares to perform even after next month's offering has been digested.

## Mobile communications

Vodafone has managed to milk its franchise with great skill since the mid-1980s. But the value of this franchise is dwindling at a pace much faster than the company's current \$5.5bn capitalisation implies. The strong rally in Vodafone shares since the middle of last month has been driven by enthusiasm over its success in winning more than half the mobile phone market and relief that the new Orange service was not more aggressively priced at launch.

But these are short-term factors. The medium-term outlook is not so rosy. Orange will become a more formidable rival from the middle of next year when its network is fully developed. Mercury One-2-One, the other new player, is further behind but could accelerate its investment plans. These two operators will flood the market with capacity. Their marginal costs will also be below Vodafone's and Celine's. Sharp price cuts and margin squeezes will be unavoidable. Strong growth in demand will counter-balance these effects but not sufficiently to enable large profit increases beyond the next few years.

Vodafone will still be able to earn a decent return on its investment for many years to come. But that is little comfort. The company's net asset value is only \$500m on a historic cost basis and, given reductions in telecommunications equipment prices, probably not much more on a replacement cost basis. Vodafone is now valued at over nine times asset value. When the market stops looking at the attractive short-term prospects, the shares could come down with a bump.

## Pressure grows in UK for EU referendum

By James Blitz

Mr John Major faces growing pressure to promise a referendum on the next step of European integration in an attempt to unite the UK Conservative party and bolster his faltering leadership.

Leading figures on both sides of the party believe a pledge to hold a referendum on issues such as the creation of a single European currency may be the only way to bridge divisions.

Mr Major is understood to believe that promising a referen-

dum now on unspecified changes in the European Union which may be proposed after 1996 is fraught with practical difficulties. But he has not ruled it out if the crisis deepens.

There were clear signs of division within the cabinet over such a referendum. Two cabinet ministers with anti-European credentials did not rule out the prospect, but Mr Kenneth Clarke, the chancellor, came out heavily against it.

Mr Michael Howard, the home secretary, said that in the run-up

to the European elections he did not want to talk about the changes to European institutions that will be considered in 1996.

Mr John Redwood, the Welsh secretary, also said the government should decide whether to hold a referendum after proposals for a single currency are finalised.

However, Mr Clarke, a committed pro-European, said that the idea could only confuse voters. He told BBC Radio's *The World This Weekend*: "The difficulty, as other countries found during the

Maastricht debate, is that when you have a referendum, people do not answer the question in front of them."

Mr Clarke's views contrasted with those of some pro-European backbenchers who believe that a promise is the only way to heal the damaging division.

Some MPs believe that Mr Michael Heseltine, the trade and industry secretary, could promise a referendum as a way of uniting MPs around his candidacy if there were a Tory leadership contest this autumn.

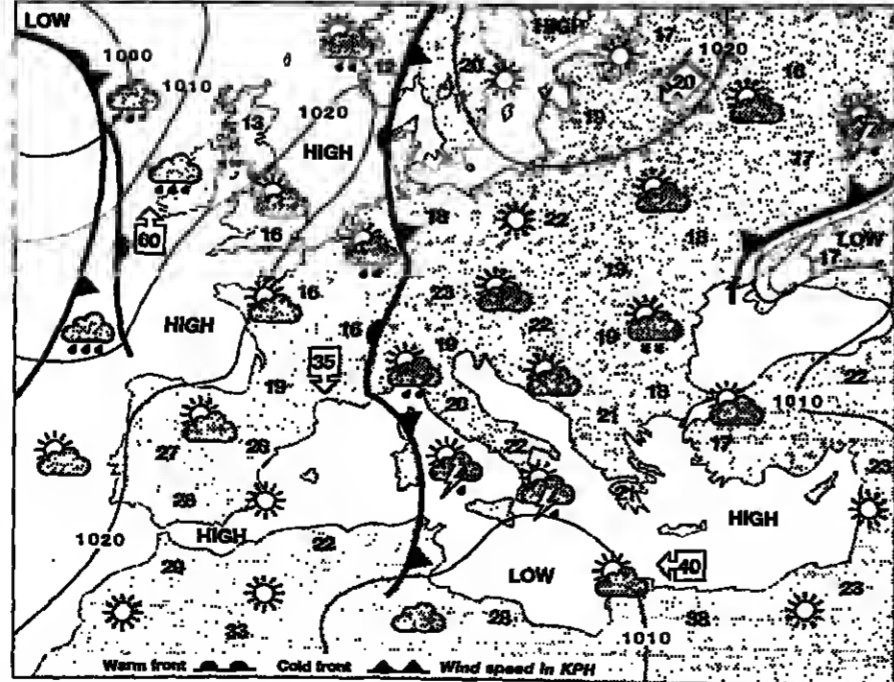
## FT WEATHER GUIDE

### Europe today

High pressure over England will extend towards Scandinavia, but a band of frontal cloud and showers will settle from southern Norway across the Alps into Sardinia. The French Alps and south-eastern France might have thunder showers and there could also be thundery outbreaks in southernmost Italy. Regions near the centre of high pressure will have a lot of sunshine. Sweden and Finland will be unseasonably warm with temperatures around 20C. England will be sunny but Ireland will be overcast for most of the day. Western Ireland will have a rainy afternoon.

### Five-day forecast

High pressure in the north will strengthen, bringing dry and warm easterly winds from Russia to England. From Thursday it will become cloudier and there will be thundery showers in France, the southern British Isles and the Low Countries. Southern Europe will be cloudy with sunny spells and there will be occasional showers in Spain. Southern Norway, Sweden and Finland will continue to be warm with almost cloudless skies.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

### TODAY'S TEMPERATURES

	Minimum	Maximum	Weather		Minimum	Maximum	Weather
Abu Dhabi	sun	40	Belgrade	sun	15	25	
Accra	show	22	Berlin	sun	15	25	
Algiers	sun	22	Bombay	sun	25	35	
Amsterdam	sun	15	Buenos Aires	sun	15	25	
Athens	sun	21	Calcutta	sun	25	35	
Bahia	sun	25	Chengdu	sun	15	25	
Bangkok	sun	25	Dublin	sun	15	25	
Bombay	sun	25	Edinburgh	sun	15	25	
Buenos Aires	sun	15	Geneva	sun	15	25	
Calcutta	sun	25	Hong Kong	sun	25	35	
Cardiff	sun	15	London	sun	15	25	
Casablanca	sun	20	Luxembourg	sun	15	25	
Chengdu	sun	15	Madrid	sun	25	35	
Cologne	sun	15	Manila	sun	25	35	
Cairo	sun	25	Montreal	sun	15	25	
Cebu	sun	25	Moscow	sun	15	25	
Dublin	sun	15	Mumbai	sun	25	35	
Edinburgh	sun	15	Nairobi	sun	25	35	
Geneva	sun	15	Rangoon	sun	25	35	
Hong Kong	sun	25	Seoul	sun	15	25	
London	sun	15	Singapore	sun	25	35	
Luxembourg	sun	15	Stockholm	sun	15	25	
Madrid	sun	25	Strasbourg	sun	15	25	
Manila	sun	25	Taipei	sun	25	35	
Montreal	sun	15	Tokyo	sun	25	35	
Moscow	sun	15	Toronto	sun	15	25	
Mumbai	sun	25	Vancouver	sun	15	25	
Nairobi	sun	25	Vladivostok	sun	15	25	
Rangoon	sun	25	Warsaw	sun	15	25	
Seoul	sun	15	Washington	sun	15	25	
Singapore	sun	25	Wellington	sun	15	25	
Stockholm	sun	15	Winnipeg	sun	15	25	
Strasbourg	sun	15	Zurich	sun	15	25	
Taipei	sun	25					
Tokyo	sun	25					
Toronto	sun	15					
Vancouver	sun	15					
Vladivostok	sun	15					
Warsaw	sun	15					
Washington	sun	15					
Wellington	sun	15					
Winnipeg	sun	15					
Zurich	sun	15					

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I S M A

F.T.

# Mannesmann swings to heavy loss

By David Waller  
in Frankfurt

Mannesmann, the German engineering group whose products range from pipes to mobile telephones, made a net loss of DM513m (\$300m) last year, a sharp swing from a net profit of DM68m in the previous year.

The group, which in February warned that it would make a heavy loss for 1993, blamed the reverse on one-off restructuring costs coupled

with the impact of further losses in its mobile-phone operations. In a statement, Mannesmann said it would be cutting its 1993 dividend to DM5 per share - down from DM6 in the previous year.

At the same time, the group confirmed that Mr Werner Dieter, architect of the group's expansion away from traditional pipe manufacturing activities into car component production and mobile phones, would be stepping down as chairman of the group's management board following

this July's shareholders meeting. Mr Dieter's successor is to be Mr Joachim Funk, 58, currently finance director and deputy chairman of the Mannesmann management board.

The results for the group included a one-off charge of DM515m to cover restructuring costs. The rationalisation measures undertaken last year would lead to a lasting improvement in earnings, Mannesmann said.

Another factor behind the group's poor performance was a DM24m loss on its D-2 mobile-phone operations,

down from a loss of DM340m in the previous year. The group revealed in February that turnover at the Mobilfunk subsidiary rose from DM138m in 1992 to DM302m last year.

As disclosed in February, Mannesmann's group turnover dropped slightly from DM28.02bn to DM27.96bn, while order intake rose from DM27.76 to DM27.95bn. The group blamed its poor operating performance on the state of the world economy and in particular on weak demand for capital goods, coupled

with the impact of adverse currency movements.

At an operating level, machine tools was the only one of the group's six business divisions to have made a profit last year - but even there profits were down substantially on the 1992 result.

The parent company reported a net profit of DM197m, down from DM244m a year earlier. This profit enables shareholders to receive a dividend in spite of the scale of the group-wide losses, Mannesmann said.

## Marc Rich ferrous team goes it alone

By David Blackwell  
in London

A team of ferrous metals traders this morning resigned from Marc Rich, the Zug-based international commodities trading group.

The team of 18 has set up its own trading company, to be known as Profer, which will start operations this week from seven offices around the world. It will also have agents in a further 11 locations.

Mr Omar Shah, who will be managing director, said the new company had conservatively estimated that it would turn over 1m tonnes of ferrous raw material, or about \$150m in its first year. The company is aiming at least to double its trading in the second year.

Turnover at Marc Rich in 1992 was \$24bn, making it the 28th biggest company in the FT's European Top 200. Mr Will Strothotte, who returned to Marc Rich as chief executive last year, said the defections would have an insignificant effect on the group's business.

"It's something that happens in a large organisation when people seek greener pastures," he said, adding that senior traders had remained at Marc Rich, which would continue in the ferrous markets.

He dismissed as an "insult" any comparison with the well-publicised departure in 1992 of Mr Claud Danphin, head of the oil trading operations, and Mr Manny Weiss, head of sugar trading.

Their resignations, along with Mr Strothotte himself, prompted speculation of a power struggle at the top of the organisation. Last December Mr Marc Rich resigned as chairman of the company and restructured it to give 72.5 per cent of its capital to management and key employees.

Mr Shah said dissatisfaction with "the much heralded equity restructuring" was a key reason behind the decision to set up Profer, which would be "sufficiently well capitalised". It had not ruled out diversifying into non-ferrous metals.

Mr Bruno Furrer will be the chief executive. He has spent 18 years with Marc Rich and will remain in Zug where Profer is to have its head office.

## Markets this week

Starting on page 20

### MARTIN DICKSON: GLOBAL INVESTOR

If the Fed fails to tighten short-term interest rates, it may face a week of tumbling stock and bond prices and further weakening of the dollar. There is a powerful case for immediate action - perhaps as early as this morning. Page 20

### MARTIN WOLF: ECONOMIC EYE

Martin Wolf argues that China's market-oriented economic development needs to be encouraged by the US, which should start with renewal of MFN treatment. Page 20

Bonds: Turkish officials continue their talks with the International Monetary Fund on a possible stand-by facility. Page 22

Equities: After Friday's news of a surprising jump in US employment levels for April, many investors are convinced that Wall Street has a long way to go before hitting bottom. Page 23

Emerging markets: Foreign investors are reacting with remarkable unanimity to the prospect of the left regaining power in Hungary. Page 21

Currencies: The dollar looks set to remain the focus, with the market anticipating shifts in interest rates to support last week's intervention effort. Page 21

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## Halifax aims for expansion

By John Gapper,  
in London

Halifax, the largest building society in the UK, hopes to take a "significantly bigger share" of mortgage lending as part of an ambitious expansion put forward by Mr Mike Blackburn, its chief executive.

The new strategy, which includes diversifying into new forms of lending and expanding existing operations such as estate agency, is a further sign of growing competition in retail financial services. Following Lloyds' £1.8bn bid to take over Cheltenham & Gloucester Building Society last month, several banks have said they would like to buy societies.

In a document sent to its 24,000 staff, Mr Blackburn says a large proportion of its 1.5m mortgage borrowers currently buy nothing else from Halifax, "which is not the case with our closest competitors".

Although the document says Halifax has "an excessive dependence on mortgage income", it also argues that it should expand its 19 per cent share of the mortgage market by organic growth, and by buying mortgage books from others.

Mr Blackburn, who was recruited from Leeds Permanent last year, has set a new "mission" for it to be "the biggest and best personal finance business in the UK". It already has the largest share of mortgages and personal savings.

He said that Halifax, which has assets of £67bn and is about twice the size of Nationwide, the second-largest society, had not expanded other services enough.

## Anglo and De Beers are emerging from isolation, writes Kenneth Gooding

# African empire open to the world

Julian Ogilvie Thompson, chairman of Anglo American Corporation, the world's largest natural resources group, had two reasons for celebration at the weekend.

There was the successful outcome of the first all-race elections in South Africa, where Anglo dominates the economy.

There was also a 60th anniversary party in London for the Central Selling Organisation, the most successful cartel in history, accounting as it does for 80 per cent of world trade in rough (uncut) diamonds. The CSO belongs to De Beers, another important element in Mr Harry Oppenheimer's industrial empire and another company which has Mr Ogilvie Thompson as chairman.

Anglo and De Beers are emerging from difficult years of apartheid isolation and frequent tension with their government. Mr Ogilvie Thompson has to ensure that the empire continues to flourish as South Africa rejoins the rest of the world, a South Africa that, he believes, has the capacity to grow economically as fast as Brazil did in the late 1960s and 1970s.

Apartheid, he says, was economically disastrous for South Africa, in that it "stopped the clock". But the delay in bringing in electoral reform had one big advantage: "The system of socialism and central planning as practised in Russia and eastern Europe has been shown not to work."

Among other things, this means that Anglo is no longer such a natural target for an ANC-controlled government intent on break-up into its mining, industrial and investment



Julian Ogilvie Thompson: South Africa's economy could grow as fast as Brazil's did 20 years ago

parts, or to nationalise. The ANC, he says, has been "on a great trek to economic sanity".

He says the degree of Anglo's domination of the country's economy has been exaggerated. However, by its own 1993 calculations, Anglo represents about 25 per cent of the Johannesburg stock exchange and 6 to 7 per cent of South Africa's capital assets.

Mr Ogilvie Thompson insists that small countries such as South Africa cannot afford US-style anti-trust legislation if they are to have companies that can compete internationally. Sweden and the Netherlands show what can be done.

Anglo is urging the new government to have an independent inquiry into competition policy. "I can't believe that the country will be so silly as to penalise success."

And if Anglo were to be split up, the likely buyers would be existing pension funds and other institutional investors. It would do little for black empowerment, he says. Instead Anglo is promoting black ownership of business, for example, by prompting the "unbundling" of Johannesburg Consolidated Investments (JCI), a mining and industrial concern in which Anglo and De Beers hold nearly 50 per cent, in a

way that should transfer control of some assets to black investors. The Sowetan newspaper is also being transferred to black ownership. And last year Anglo spent about \$100m buying products and services from small mainly black-owned businesses that it had encouraged with training and, sometimes, financial help. "You need big businesses for exports but small businesses create most of the jobs," says Mr Ogilvie Thompson.

However, Anglo remains very much an anachronism when viewed by international investors. It is a huge, centralised group with complex cross

shareholdings that, according to its critics, renders management unaccountable to shareholders. The complicated control structure ensures that Anglo remains a family business, even though Mr Harry Oppenheimer, 84-year-old son of the founder, retired as chairman 12 years ago.

Mr Ogilvie Thompson admits: "We have a major job to get our structure understood. We must improve our presentation of ourselves." But he insists Anglo is not a conglomerate in the 1980s American style. It has not developed by acquiring companies for shares but by starting most from scratch and "following our noses". Its metallurgical skills led it to set up the Highveld steel company, for example. He recalls that the South African mining industry developed the way it did because of shortages of capital and skills. "When you had a good metallurgist, you shared him among several companies."

Anglo has been "tidying up" its structure to make it more logical. Most of the industrial assets have been moved into Amic (Anglo American Industrial Corporation). A reshuffle of assets between Anglo and Minorco, its Luxembourg-registered offshore investment arm, has ensured there will be no conflict of interest - Anglo searches for mineral opportunities in Africa, Minorco gets the rest of the world.

There is still some tidying up to do and more non-core assets will be sold, such as the Argus newspaper operations being acquired by Mr Tony O'Reilly's Independent Newspaper group.

But 10 years from now, the Anglo-De Beers group will not look much different, Mr Ogilvie Thompson says. Continued on Page 19

## This week: Company news

### JAPANESE SEASON

## Groups line up to report fourth year of decline

The Japanese corporate results season starts this week with 1,390 companies, listed on the first and second sections of the Tokyo stock exchange, announcing annual figures for the year to March.

The trend is expected to be for companies to report profit declines for the fourth consecutive year, the longest period on record. The spate of announcements will last for about three weeks and comes against the background of continued recession and falling demand.

Nomura Research Institute, the research arm of Nomura Securities, projects combined pre-tax profits for the last business year to fall 23.2 per cent. Sales of the manufacturing sector are forecast to fall 4.9 per cent.

Although earnings prospects in the electronics and electronic parts sectors improved, the lower earnings of basic materials companies, such as steel, cement, and paper and pulp makers, will have pulled profits lower.

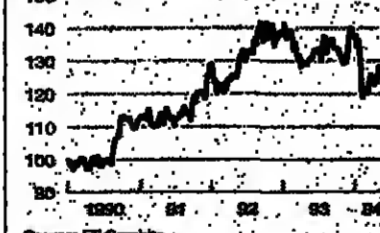
Capital investment, excluding financial companies, is expected to have declined by 11.4 per cent. The only sectors likely to have increased investment are paper and pulp, drugs, foods, oil and coal, communications and utilities.

Improvement in profit margins, lower labour costs, and a decline in depreciation and other effects of rationalisation are expected to help earnings for the year to March 1995. NRI expects pre-tax profits to rise 0.2 per cent while capital investment is forecast to fall a further 2.9 per cent in spite of an increase in five sectors - building materials, electronics and electronic parts, oil and coal, transportation and utilities.

However, the institute, which based its forecast on an average yen rate of ¥108.6 against the dollar, warns the profit outlook for this year will deteriorate if the annual average for the currency rises sharply.

### J. Sainsbury

Share price relative to the FT-SE-A Food Retailers Index



## J. SAINSBURY Charges take toll as growth years end

J Sainsbury's downbeat trading statement in January, when it announced a fall in underlying sales and gross margins, and a property write-down of £36m, was one of the lowest points in a bleak year for UK food retailers.

The impact of those factors will be apparent on Wednesday, when Sainsbury is expected to announce a fall in reported pre-tax profits for the year to March from £785m to £320m-£335m. That is after both the £36m non-recurring write-down on its properties, and a £40m recurring depreciation charge.

Even adding back the charges, profits are at best expected to be only slightly better than last year - ending a decade of spectacular profits growth by the UK's largest grocery retailer.

Sainsbury is expected to address analysts' questions on whether trading has improved and on the future of its "Essential for Essentials" campaign launched last October. That marked a move towards "everyday low prices" on 300 own-label lines, accounting for about 10 per cent of turnover.

Hailed initially as a clever strategic move, it has since been blamed for poor performance.

Analysts are also keen to hear more about Sainsbury's plans for its Savacentre hypermarkets, Homebase DIY superstores and US supermarket chain Shaws.

### OTHER COMPANIES

## Fiat on course for its biggest loss

Fiat, the Italian automotive and industrial group, will announce the biggest loss in its history on Thursday. It is likely to report a net loss for 1993 of between £1,800m (\$1.1bn) and £2,100m, and there is little prospect of a return to net profit before 1995.

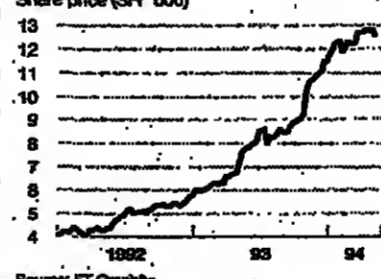
The market has already taken account of the bad news - heralded in September when the group announced a £865m plunge into the red for the first half - and is speculating on an end to the crisis. Spurred on by faint signs of recovery in the automotive market, and by early success of the Punto, Fiat shares have been among the best performers on a buoyant Milan stock market.

Roche Directors of the Swiss pharmaceuticals group may shed more light on the rather high \$5.3bn price they bid last week for US drugs group Syntex at the annual press conference tomorrow. Roche has revealed a 29 per cent rise in 1993 net income to SF2.48bn (\$1.7bn) but has yet to indicate whether it will continue defying the industry-wide profit squeeze.

UK Insurers: Three of the biggest insurance companies are due to report a rise in profits for the first three months of 1994, confirming the recovery in the general insurance market. General Accident is expected to post pre-tax profits of about £60m (\$90m), compared with £42m. For Commercial Union, which reports on Wednesday, forecasts vary from £38m to £50m, while the range for Royal Insurance is £15m-£25m. The companies have gained

### Roche B

Share price (SF '000)



from increases in insurance rates and an improved claims experience.

Grand Metropolitan: Interim figures from the UK food and drinks group, due on Thursday, should show a healthy pre-tax profit increase of around 10 per cent to about \$45m. Floods in the US mid-west last autumn should have helped the Pillsbury Green Giant business, given the resulting rise in vegetable prices. The Burger King hamburger business, part of Pillsbury, should also produce a strong showing. The hot topic is whether GrandMet will take the opportunity of unwinding its unhappy Intreprenuer pubs joint venture with Courage.

Unilever: First-quarter figures on Friday from the Anglo-Dutch consumer products group should show only modest improvement, perhaps to \$450m pre-tax against \$440m, with detergents the most depressing factor. The recent downturn in the US started after the period and this quarter should also start to show the costs of launching the new super-concentrated detergent across Europe.

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## MORSE

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## COMPANIES AND FINANCE

# L&G to reappraise tie with Northern Rock

By Alison Smith

Legal & General, one of the UK's largest life and general insurance companies, is to seek to devise a new relationship with Northern Rock building.

The need to reappraise Northern Rock's "tie" with L&G comes from the society's announcement last week that it planned to merge with Northern Rock, to form the UK's 10th largest society. North of England is tied to General Accident, and the merged society could not maintain ties with both insurers.

Mr Chris Sharp, Northern Rock managing director, is concerned about whether the society would find it worthwhile continuing a tie against a background of rising compliance costs.

Severing the link would represent a further unwinding of

relationships between building societies and life insurers, and could also point to a more general reconsideration by insurers of the benefits of having tied agents.

Last week, for example, Nationwide, the UK's second largest society, announced plans to end its tie with Guardian Royal Exchange and set up wholly-owned life assurance and unit trust subsidiaries.

The Northern Rock board will decide about the future arrangement with an insurer, if any, over the summer - ahead of the effective date of October for the merger.

If it ended the relationship altogether, Northern Rock could stand to lose about £1m a year in premium income.

One possibility is that Northern Rock might become, in return for smaller commissions than it receives for being a tied agent, an "introducer" of busi-

ness to L&G. On that basis, the society's staff would not give financial advice, but simply pass on "warm leads" to an L&G sales force.

L&G said that losing the tie with Northern Rock would be a "disappointment rather than a setback": some 40 per cent of new business in 1993 came from its direct sales force, with up to 30 per cent coming from independent financial advisers.

However, Northern Rock was its largest tie with a society, since it lost the link with Cheltenham & Gloucester, the sixth largest society.

Other recent events may have contributed to making insurers wonder if having tied agents can be more trouble than it is worth: failures to meet regulatory standards relating to tied agents were elements in the record £300,000 fines imposed on Norwich Union and Premium Life.

## Setback for Lipton over British Land stake

By Vanessa Houldier, Property Correspondent

The struggle by Mr Stuart Lipton, chief executive of Stanhope, to block a deal to which British Land acquired a 29.9 per cent share of Stanhope has suffered a setback to the High Court.

Mr Justice Vinelott made an order striking out proceedings by Mr Lipton's private company against British Land and the Bank of Nova Scotia. Mr Lipton had claimed pre-emption rights over the 29.9 per cent stake which British Land acquired from the Bank of Nova Scotia in March.

The judge made his decision on the grounds that the Lipton Group's claim disclosed "no cause of action". He refused leave to appeal and costs were awarded to the defendants.

Mr Lipton has been anxious to overturn British Land's acquisition of the stake, which is seen as a step to gain control of Stanhope's half-share in Broadgate, the City offices.

Mr Lipton says he has the right of first refusal to buy the stake, originally owned by Olympia & York, then pledged to the Bank of Nova Scotia.

Mr Lipton was unavailable for comment, although he is understood to be intent on pursuing his claim further.

## B&J meeting likely to be adjourned

By Simon Davies

Today's extraordinary meeting at troubled retailer Brown & Jackson to consider a capital injection by Mr Gerald and Mrs Vera Weisfeld, will no longer mark the Glaswegian couple's triumphant return to discount retailing.

A motion to adjourn the meeting will probably be approved by shareholders, paving the way for their later consideration of a new bid by Pepkor, the South African retailer. Pepkor's offer of a capital injection of up to £56.2m is double the maximum investment by the Weisfelds.

The Weisfelds, who founded the Whatever Everyone Wants clothing chain, have remained silent since their offer was



Vera and Gerald Weisfeld: have some three weeks to counter bid

gazumped, leaving no indication of whether they are prepared to enter a bidding war.

The B&J board is unani-

ously supporting the Pepkor offer, but the Weisfelds have more than three weeks to counter bid, before the South

African proposals go before shareholders.

Pepkor would provide a £12m secured five-year trade finance agreement. In addition, it proposes to pay £500,000 for 12.5m new shares and buy £7.5m of secured convertible loan stock, convertible into 187.5m shares. It would pay £77,200 for the rights to subscribe for 772m new shares at 5p, raising £38.6m.

Finally, it would take options to buy 128m shares at a price of either 2.5p, 5p, or 7.5p, depending on the timing of exercise. This would raise between £3.2m and £9.6m.

The Weisfelds were proposing an initial £5m capital injection, and an investment package worth a maximum of £28m.

## Goldsborough buys hospital

Goldsborough Healthcare has enlarged its position in the acute hospitals sector with the acquisition of Regency Hospital, the owner and operator of Macclesfield's independent Regency Hospital, for an initial £1.1m, plus the repayment of £3.53m of debt.

Regency Hospital is currently registered for 37 beds, but could increase that number by 17 "with only relatively minor additional commis-

sioning costs", Goldsborough said. In 1993 Regency made profit before interest and tax of £396,000 on turnover of £2.62m. The profit figure was struck after one-off charges of £138,000.

Subject to the achieving of profit targets for 1994, Goldsborough will make a deferred payment of £1.5m on a pro rata basis. The consideration will be financed from Goldsborough's own resources.

## P&P purchase for up to £6.6m

P&P, the computer hardware supplier and services company, is buying Computers for Business (Scotland) for up to £6.6m. The company also reported an encouraging start to the present year to November 30 1994.

Profitable contributions continued to be made by most areas of the business and earnings were showing significant progress. An initial £3.74m for 94.3 per cent of CFB will be satisfied by the issue of 4.5m shares, valued at £3.11m, £520,724 in loan notes and £108,597 cash. P&P has an option to buy the outstanding shares for an initial £390,000 cash.

A further £1m payment is

variable depending on net assets at completion and there is an additional profit-related payment to a maximum of £1.6m.

The additional payments will be satisfied by a mixture of shares, loan notes and cash. CFB reported 1993 pre-tax profits of £530,157 (£506,000) on turnover of £15m (£12.1m).

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Roche (Switzerland)	Syntax (US)	Pharmaceuticals	£3.6m	Industry restructuring
SmithKline Beecham (UK/US)	Diversified Pharmaceuticals Services (US)	Pharmaceuticals	£1.5m	... with a vengeance
Electrolux (Sweden)	Hausgeräte (Germany)	Household appliances	£286m	Agreement finalised
Wassell (UK)	General Cable Corp (US)	Cables	£178m	A bet on America
Pepkor (S Africa)	Brown & Jackson (UK)	Retailing	£56m	Option for 63% stake
stake Anytium (Belgium)	Orsan (France)	Food additives	£48m	Lafarge Coppée disposal
BioChem Pharma (Canada)	Unit of Ares-Serono (Switzerland)	Diagnostics	£43m	Another pharmaceutical deal
Aeon Group (Japan)	Revman Industries (US)	Household	£18m	Laura Ashley sells its 44%
Compass (UK)	Unit of Saresco (France)	Catering	£10.7m	Second buy in a week
Polytype (UK)	Janoplast (France)	Piping	£9.8m	First buy in Europe



### AMER GROUP LTD

AMER GROUP LTD USD 75,000,000 1 1/4 PER CENT SUBORDINATED CONVERTIBLE BONDS DUE 2003

Holders of the above-mentioned bonds (the "Bonds") are hereby notified that Amer Group Ltd (the "Company") has completed the rights issue of 4,738,491 new A shares. Holders of A shares were entitled to subscribe for one A share for every four A shares already held and holders of K shares were entitled to subscribe for one A share for every four K shares already held. The subscription price was FIM 100 per A share.

In accordance with Condition 7 (b) (iv) of the Terms and Conditions of the Bonds and Clause 9 (B) (iv) of the Trust Deed (the "Trust Deed") dated 15 June 1993 constituting the Bonds, the Board of Directors of the Company has resolved to adjust the initial Conversion Price for the Bonds of FIM 144 per A share to FIM 133.80 effective from 16 March 1994.

Capitalised terms used herein have the same meaning as in the Trust Deed.

Helsinki, 6 May 1994

AMER GROUP LTD



### AKZO NOBEL

Pursuant to the Dutch Major Holdings in Listed Companies Disclosure Act ("Wet Melding Zeggenschap"),

Akzo Nobel N.V. - formerly Akzo N.V. - states that it has been informed by Securum Forvining AB, Regeringsgatan 39, 103 98 Stockholm, Sweden, that said entity is holder of shares in the Company equivalent to an interest of 18.2 percent, of which 18.2 percent is designated indirect and 0.0 percent potential.

Amstern, May 9, 1994

Akzo Nobel N.V.

Cassa di Risparmio di Verona Vicenza Belluno e Ancona U.S.\$100,000,000

Floating Rate Depositary Receipts Due 1999

Notes are hereby given that the Rate of Interest has been fixed at 4.5125% and that the interest (coupons) on the Floating Rate Depositary Receipts will be paid on August 9, 1994 against Coupon No. 2 will be US\$122.99 in respect of US\$100,000 nominal of the Receipts and US\$1,227.86 in respect of US\$100,000 of the Receipts.

May 9, 1994, London

By: Citibank, N.A. (Issuer Services), Agent Bank

CITIBANK

### NEWS DIGEST

#### Try pays £3.7m for properties

Try Group, the contractor and housebuilder, has bought Molasses House and Cotton Row, at Plantation Wharf, Battersea Reach, from the receivers of Broadwell Land for £3.7m.

Molasses House will be converted into luxury apartments while Cotton Row presents an opportunity to develop nine town houses. Prices will range from £90,000 to £250,000.

#### CRH expands into Belgium

CRH, the Dublin-based construction and building materials group with operations in

Ireland, the UK, the US and the Netherlands, has expanded into Belgium.

It has bought a 90 per cent stake in Marlux Group, a privately-owned family business which makes decorative paving products in concrete. Marlux is market leader in this niche sector in the Benelux countries, Germany and France. In 1993 sales were BFR1.3bn (£26m, or £25.2m sterling).

The remaining 10 per cent of Marlux will be retained by the family.

#### Automotive suffers £12.5m losses

Automotive Products has fallen into the red for 1993 with pre-tax losses of £12.5m. This compared with profits of £16.2m and was achieved on turnover down from £283.5m to £246m.

The directors of this Guthrie Corporation offshoot, which is a wholly-owned subsidiary of BBA Group, said that a difficult year was exacerbated by continuing overcapacity and competition in the aviation components business.

#### Lasmo 96.5% rights issue take-up

Of the Lasmo rights issue, acceptances have been received in respect of 266.5m shares, representing some 96.5 per cent of the 274.5m new shares offered.

#### Lombard offer closing date

The intermediaries offer for shares in Lombard Insurance Group will close at 10am on Friday and trading will commence on May 18.

This announcement appears as a matter of record only.

May 1994



## Dresdner Bank Aktiengesellschaft

### Global Offering of 3,000,000 New Ordinary Bearer Shares

in the form of Ordinary Bearer Shares or American Depositary Shares

Issue Price: DM 380

#### Global Coordinators

Dresdner Bank Aktiengesellschaft

Merrill Lynch International Limited

#### International Tranche 2,240,000 Shares

Dresdner Bank Aktiengesellschaft

Merrill Lynch International Limited

Banque Nationale de Paris

UBS Limited

ABN AMRO Bank N.V.

Barclays de Zoete Wedd Limited

Daiwa Europe Limited

Enskilda Corporate Skandinaviska Enskilda Banken

Fox-Pitt, Kelton N.V.

Swiss Bank Corporation

S.G. Warburg Securities

Merrill Lynch & Co.

Dresdner Securities (USA) Inc.

Goldman, Sachs & Co.

Morgan Stanley & Co. Incorporated

Salomon Brothers Inc.

## COMPANIES AND FINANCE

## Helicopter group forecasts big fall in losses this year

By Alice Rawsthorn in Paris

Eurocopter, the Franco-German helicopter company, hopes to reduce its losses significantly this year after a very difficult year in 1993, according to Mr Jean-François Bigay, chairman.

Mr Bigay said that Eurocopter - which is 70 per cent owned by Aerospatiale, the French aerospace group, and 30 per cent by Deutsche Aerospace, its German counterpart - sustained a net loss of between FF350m and FF400m (\$51m-\$70m) on turnover of around FF1.0bn in 1993, the worst year for the helicopter industry since the 1980s.

He predicted that the middle to late 1990s would be a "critical period" for the company, which was created in 1991.

However, Mr Bigay said that Eurocopter had already started to recover from its difficulties in 1993 and hoped it would halve its net loss this year.

The industry suffered last year from the economic recession, which triggered a substantial reduction in orders for helicopters for civil purposes, and from significant cutbacks in government expenditure.

Demand was also affected by the problems of the oil industry which, has been one of the main markets. The recent fall in this oil price has forced many oil groups to cut down on orders for new helicopters for use on off-shore rigs.

Eurocopter estimated that the number of helicopters sold last year was roughly half that of the 1,000 sold in each of the previous 10 years. Mr Bigay said demand does not appear to have improved so far in 1994.

The Franco-German company also claims that it is more vulnerable to downturns in demand than its US competitors - Sikorsky and Bell - because it does not have the benefit of a strong domestic market. However, Eurocopter does have high hopes for the long-term potential of the NH90, a new helicopter being developed on a pan-European basis.

## Mike Walsh, chairman of Tenneco, dies

By Richard Waters in New York

Mr Mike Walsh, chairman of Tenneco, the diversified US industrial company, died on Friday, 16 months after being diagnosed as suffering from a brain tumour.

Mr Walsh, 51, was a highly-regarded manager who had won a reputation as one of the US's foremost turnaround experts.

He had been hired by Tenneco in 1991 to help revive the fortunes of the ailing company, whose activities extend from the Case farm machinery company to gas pipelines, shipbuilding and packaging.

By slashing the company's dividend, selling assets and taking an axe to its costs, he returned Tenneco to profitability last year.

Mr Walsh had spent the previous five years at Union

Pacific Railroad, which he had taken through a similar restructuring. But his career in industry had begun only in 1980, when he joined Cummins Engine at the age of 28. Before that, he had worked in private practice as a lawyer and as district attorney in southern California.

Mr Walsh had stepped down as chief executive of Tenneco in February, saying at the time that his medical treatment was impairing his ability to run the company. The chief executive's position was taken over by Mr Dana Mead, then president and chief operating officer, who had been brought in to Tenneco by Mr Walsh two years before.

Mr Mead was among those who paid tribute to Mr Walsh's determination. "Mike's legacy is our shared inspiration to fight on and never settle for second best," he said.

## NEWS IN BRIEF

## Australian TV stake for TCI

Tele-Communications, the largest US cable company, is making a small direct investment in Australia's Media, the stock market-listed Australian company which holds one of the country's two publicly-available satellite broadcasting licences and has pledged to introduce pay-TV services to Australia later this year.

The US cable giant is also gaining boardroom representation at the fledgling Australian company. TCI is to acquire 6m convertible debentures at an issue price of A\$1.40 each, via its wholly-owned TCI-Australia subsidiary.

TCI already holds an indirect interest in Australia, via its interest in Liberty Media, which is currently being merged into TCI. Liberty Media, in turn, owns 49.5 per cent of Leifheit Communications, which owns 49.9 per cent of Australia.

The net effect of the latest investment, plus the complex indirect holding, is to give TCI a 28.5 per cent economic interest in Australia.

Broken Hill Proprietary, the Australian resources group, said its Canadian minerals subsidiary is to go ahead with a feasibility study for the first diamond mine on the Northwest Territories joint venture with Canada's Din Met Minerals, writes Nikki Tait.

Sumitomo of Japan and Norway's Hydro Aluminium group are joining forces to exploit expected growth in the use of aluminium by the world's motor industry, writes John Griffiths in London.

A general co-operation agreement has been signed in Norway between Sumitomo Light Metals, a leading supplier to the Japanese car industry, and Hydro's aluminium extrusion group, whose main markets are in Europe and North America.

The launch of Audi's A8 luxury car, the first fully high-volume car with an all-aluminium body, has encouraged forecasts that industry use of the material will soar.

## Birla ready for multinational challenge

India's family-run conglomerate has no fear of competition, writes Stefan Wagstyl

Few leaders of Indian industry are as enthusiastic about their commercial future as Mr Aditya Birla.

At a recent business conference in New Delhi, he gave such a rousing summary of India's economic prospects that he won more applause than even the charismatic reform-minded finance minister, Mr Manmohan Singh.

Mr Birla has good reason to feel more optimistic than most. As head of a grouping with annual sales of over Rs100bn (\$3.2bn), he controls one of the largest industrial houses in India, with interests in textiles, chemicals, metals and cement.

Moreover, unlike most other big family-run groups, Mr Birla's companies already have a substantial investment overseas - over half of total sales come from plants in south-east Asia, Africa and elsewhere.

Birla companies made their first foreign investment - a textile mill in Ethiopia - 35 years ago. Mr Birla says that having competed with foreign companies abroad he has no fears about meeting the challenge of the multinationals in India, his native land. "We have been operating abroad in free markets for many years. I would say competitors should be afraid of me."

Some other businessmen have expressed fears that Indian industry might be swamped by foreign companies, and have urged the government to protect them from the onslaught. Mr Birla says he understands these concerns.

Local groups producing branded goods have genuine difficulties because multinationals have "built their brands over a 100 years in 100 countries spending millions of dollars".

These advantages cannot be wished away. But Mr Birla says that in basic industries - including the activities of Birla group companies - success is mainly determined not by brand but by quality and cost-competitiveness. "In the sectors we are in, we can hold our own."

Unlike the small-scale obsolete plants typical of much of Indian industry, Mr Birla's enterprises compare well with the world's largest. He says his companies are sixth biggest in the world in carbon black, third in electrical insulators, first in refined palm oil and in rayon fibre.

Mr Birla's companies produce rayon in Thailand, Indonesia and the Philippines as well as India. His aluminium smelter in north India, producing over 140,000 tonnes of metal a year, is among the

world's top 15 per cent lowest-cost producers.

The Birla fortunes date back to the 19th century, when the family moved from its ancestral home in Rajasthan to Calcutta, the commercial centre of British India. Members of the Marwari merchant caste, they quickly made money trading jute and opium and established themselves in jute production.

The family prospered under the legendary leadership of Mr G. K. Birla, Mr Aditya Birla's grandfather, who dominated the business for more than 80 years until his death in 1983.

Control of Birla companies is spread among about six family branches, but Mr Aditya Birla was singled out for special favour by his grandfather because of his precocious business talents and he was bequeathed the best of the group.

Mr Aditya Birla particularly impressed his grandfather by expanding overseas in the 1960s and 1970s, when the socialist-inspired governments in New Delhi tried to curb the domestic expansion of large groups.

Mr Aditya Birla's main listed companies, in which the family holds 20 to 30 per cent of the equity, are Grasim Industries (cement, textiles, and caustic

soda), Hindalco Industries (aluminium), Indian Rayon and Industries (rayon, carbon black) and Indo Gulf Fertilisers and Chemicals (urea-based fertilisers).

The group is in the midst of important investment plans, put together before Mr P. V. Narasimha Rao, the prime minister, launched economic reform in 1991 but which have since been brought forward and expanded.

Altogether, Mr Birla's companies are spending Rs70bn over the next three years. Hindalco, which is spending Rs12.5bn, is expanding output of refined aluminium by 40,000 tonnes a year to 210,000 tonnes and installing a new rolling mill.

Grasim is spending Rs14.5bn on expanding production of cement (it is India's largest manufacturer) and rayon and on a recently-completed sponge iron plant in the western state of Maharashtra.

Indian Rayon, Indo-gulf Fertilisers and smaller companies also plan expansion and new ventures ranging from software exports to producing magnesium from sea water.

However, even these projects are dwarfed by Mr Birla's plan to build a Rs27.5bn oil refinery with an annual capacity of 3m tonnes of crude in Mangalore, on the south-west coast.

Formed as a joint venture with Hindustan Petroleum, a state-owned oil company, the plant is expected to come on stream in 1996.

To help fund these schemes, Birla group companies have raised some \$423m through Euro-equity issues in the past 18 months and intend to raise a further \$200m.

Mr Birla rejects suggestions that the group is becoming too diverse. He runs his empire by delegating decision-making to the operating companies, while remaining in overall charge of the direction the businesses take.

He keeps in touch with financial performance by a regular reporting of cash positions - using a system developed by the Marwari caste.

Mr Birla is now so confident of India's future that his overseas companies are putting capital into the Indian operation - reversing the flow of previous years.

His main immediate concern about the Indian economy is inflation, which has risen sharply in the past year from below 7 per cent to over 10 per cent for wholesale prices.

Mr Birla says: "We have to ensure that our costs don't go up with inflation if we are to remain competitive."

## African empire open to the world

Continued from Page 17

via Thompson says. The relationship between Anglo and De Beers - cemented by substantial cross shareholdings - has worked well for years and there is no reason to suppose it will not go on doing so. De Beers concentrates on the diamond business. Anglo will continue to invest in diamonds through De Beers and continue to provide De Beers' technical needs - "that way we can offer the people we hire much wider scope".

De Beers needs a very strong balance sheet to be able to finance the troughs in diamond demand or sudden increases in supply. So it will continue to build up investment in "a portfolio of companies competently

run, because De Beers' people need to put all their concentration on diamonds".

Cashflows will be used for businesses the group knows well. Anglo's profile might change slightly if South African exchange controls are removed and it can invest abroad. But as Minorco is cash-rich and unhampered by the restrictions, "we are not champing at the bit for that to happen".

He suggests South Africa should work towards the removal of exchange controls but "timing is everything. We cannot run the risk of capital being withdrawn in a hurry".

The staying power of the group is well illustrated by De Beers' Central Selling Organisation which yesterday wel-

comed clients from all over the world for a 60th anniversary party.

After last year's record performance - CSO sales reached \$1.4bn (£3bn), some 5 per cent ahead of the previous record in 1988 - the diamond market "opened firm" this year, says Mr Ogilvie Thompson. Nevertheless, De Beers faces some substantial challenges.

It is still restricting the quantities of stones it takes from producers who belong to the cartel - only 85 per cent of those contracted for. This is a clear sign that supply continues to outpace demand. And stocks are already high - De Beers' own have a book value of about \$4bn and probably have a much higher market value.

But the biggest threat to the cartel is Russia, which supplies about 25 per cent of the world's gem diamonds by value, and whose contract with the CSO runs out next year. Mr Ogilvie Thompson has already scolded the Russians for selling diamonds from their stocks "in contravention of our agreements".

He says most of those officials in Russia who have been in the diamond business for years want to stay with the CSO.

Others, such as Mr Yevgeny Bychkov, head of Krasnodar, the Russian diamond and precious stones committee, "are not totally committed. We have 18 months to convince them that it is in their best interests."

## Correction

### Khalid Salem Bin Mahfouz

In an article in the International Companies and Finance section of May 5 1994 headed "Mexican Banker Faces Civil Action", we wrongly described Mr Mahfouz as having pleaded guilty to charges arising out of the "BCCI investigation".

We accept that last December the New York County District Attorney and the Federal Reserve dropped all federal and state criminal and civil charges against Khalid Bin Mahfouz in connection with their BCCI investigation.

We apologise to Mr Mahfouz for any distress or embarrassment that may have been caused to him and his family by the error.

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# The Markets

THIS WEEK

Global Investor / Martin Dickson in New York

## Fed credibility on the line



The US Federal Reserve could move as early as this morning to raise short-term interest rates, for if it fails to provide rapid reassurance to a very jittery market it may face a week of tumbling stock and bond prices and further weakening of the dollar.

There can be no doubt that a Fed tightening is imminent. What remains unclear is whether the central bank will wait until the next meeting of its policy-making Open Market Committee, on Tuesday of next week, and how large a rate rise it will sanction. There is a powerful case for immediate, strong action.

Last Friday's better-than-expected April employment figures, which so badly spooked the bond market, demonstrated that the US economy is growing vigorously - probably at a 3.5 to 4 per cent annual rate - and so far showing few signs of the more modest performance widely predicted for later this year.

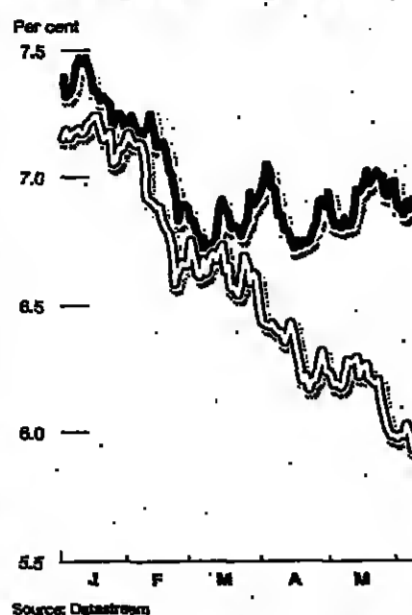
While inflation remains subdued for now, the current 3.75 per cent Fed funds rate is still a considerable way from the neutral rate the Fed is aiming for, which arguably lies in the 4.5 per cent range.

The persistent rise in bond yields since February's initial tightening, and last Friday's jump - the highest one-day increase since the Gulf war - show that the market simply does not trust the bank's policy of incremental, 25 basis point increases in Fed funds as an inflation-fighting instrument.

Its anxiety is being heightened by the Clinton administration's nomination of Mr Alan Blinder as Fed vice chairman, given his reputation (deserved or not) for softness on inflation.

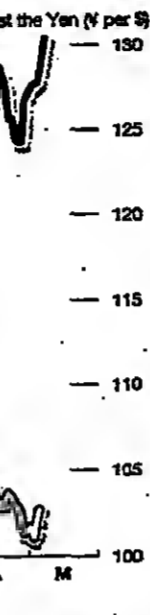
Fed tightening early this

### US 30 year Long bond



Source: Datastream

### Dollar



week could restore a measure of calm to the bond market, and would also clear the air ahead of this week's \$29bn of Treasury auctions, starting with tomorrow's sale of three-year notes.

Whenever the bank acts, the general expectation is that it will put at least 25 basis points on Fed funds and increase the discount rate for the first time in this cycle, with a 50 basis point rise in both rates would send a much better anti-inflation signal to the markets.

The politicians would hate it, and so might stocks, but a firm demonstration of resolve could lay the basis for an eventual rally at the long end of the bond market.

It would also help underpin the dollar, at least in the short term. While longer-term structural factors (including a deepening current account deficit and outflow of investment funds) may explain much of the dollar's unexpected weak-

ness, the recent plunge in the currency is due in no small measure to lack of confidence in US monetary policy.

### Commodities

The surge in international commodity prices on Friday also represented a vote of confidence in the Fed's anti-inflation credentials as speculative funds poured into a broad range of assets, including precious metals, copper, coffee and oil.

However, the bull run hid a range of differing fundamental factors in the various markets which suggest it is too soon in the current cycle to expect a sustained surge in across-the-board prices - though the long-term trend is upwards.

Gold, in particular, would be vulnerable to a decisive tightening move by the Fed. Copper prices may stay firm thanks to the strength of the US economy and glimmerings of European recovery, but increased

supply later in the year could have a depressing impact on the market.

The coffee rally, which has taken prices up by nearly 40 per cent since the start of the year on supply constraints, may be due for a correction, though the outlook remains fundamentally strong.

Oil, having rallied by more than \$4 a barrel since mid-February, was further buoyed last week by fighting in the Yemen and output problems in the North Sea. The Yemen is not a big producer, and the markets should rapidly adjust to any supply disruptions. But indications of higher global demand in the second half of this year - underscored in a report last week from the International Energy Agency - should help underpin the market's rally.

Under the rule of Deng Xiaoping, the long slumber of China's economy has ended. This creates possibly the most important policy challenge facing the West. Significant decisions - over whether to renew China's MFN (most-favoured-nation) status in the US, for example, and on what terms to let it into the General Agreement on Tariffs and Trade - must soon be taken.

The issues are expounded with clarity and common sense in a recent monograph by Mr Nicholas Lardy, professor at the University of Washington, and a well known expert on the Chinese economy. Prof Lardy recognises the difficulty posed for the rest of the world by a country that is so large and economically dynamic, but remains under the control of a distasteful communist regime. Fortunately, experience elsewhere in east Asia suggests that democracy ultimately follows introduction of a successful market economy, though with a significant lag.

Partly for this reason, the remarkable economic development under way needs to be supported. The Chinese economy grew at an annual average rate of 9.4 per cent between 1980 and 1991. The explosion in its foreign trade (shown in the chart) means that China's share in world exports rose from 0.9 per cent in 1980 to 2.3 per cent in 1992. In 1993, China was the world's 20th largest exporter; by 1995, it was 15th; and by 1997, it was 11th (10th if Hong Kong's re-exports are excluded).

Prof Lardy tries to assuage the alarm this performance has awakened. He argues, for example, that China is not yet and is not likely soon to become an economic superpower. Similarly, he notes that China is, in important respects, more open to the world economy than were Japan, South Korea and Taiwan at comparable levels of development.

How large is the Chinese economy? The highest estimate of income per head at international prices is \$2,600, which would make the economy second largest in the world. If

meeting in much better spirits than for very many years. Mr George Fisher, chairman since December, has moved rapidly to reverse a decade of misguided diversification which has left the group with a heavy debt burden and lacklustre earnings growth.

The first fruits of the new management style were put on display for Wall Street analysts last week when Mr Fisher announced plans to sell off three big businesses, including Sterling Drug, the pharmaceuticals business Kodak bought for \$5.1bn in 1983.

Fisher's plan, which squares with what the investment community has been urging Kodak to do for years, is to concentrate the company's resources on its core imaging business. That means both squeezing better earnings out of its conventional silver halide photographic business, through cost cutting and market share gains, and focusing more energy on digital photography,

which some forecasts reckon could account for 25 per cent of the image market by the turn of the century.

However, Kodak's new vigour does not make the stock a strong buy. The disposals look like being fairly neutral for earnings, and Kodak shares, which stand plump in the middle of their 52 week range, are not particularly cheap, with a prospective P/E ratio of 16.

Mr Fisher is promising to boost the return on net assets from about 6 per cent last year to at least 12 per cent by 1995. He should be able to take plenty of fat out of the paternalistic company's cost structure, but Kodak's traditional film business faces increasing competition from branded rivals like Japan's Fuji and private label manufacturers such as 3M.

And while Mr Fisher's high technology background - as former chief executive of Motorola - holds promise for the digital imaging business, there are no signs yet of this sector making a substantial contribution to group profits.

### Kemper

Kemper's agreement yesterday to open negotiations with General Electric on a \$60 a share takeover bid looks good both for GE and the holders of Kemper shares - some 10 per cent of whom are based in Europe.

GE, which has faced persistent rebuffs from Kemper's management, will finally get a chance to look at the company's books and determine whether its property portfolio is sufficiently cleaned up to merit a formal tender offer at this level.

If so, a takeover will give GE a powerful leg up in the fund management business.

Kemper, for its part, has managed to get GE to increase its offer from \$55 a share to \$60, and its management avoids what was likely to have

### Total return in local currency to 5/5/94

	US	Japan	Germany	France	Italy	UK
Cash						
Week	0.07	0.04	0.11	0.10	0.15	0.09
Month	0.32	0.19	0.48	0.51	0.69	0.44
Year	3.31	3.25	6.95	7.00	10.69	8.19
Bonds 3-5 year						
Week	-0.14	0.09	0.32	-0.27	-0.09	-0.55
Month	-0.34	0.16	-0.19	-0.70	0.24	-0.98
Year	-0.18	9.08	6.94	7.27	19.21	5.36
Bonds 7-10 year						
Week	-0.29	-0.62	-0.21	-1.56	-0.95	-1.28
Month	-0.15	-0.95	-1.95	-3.02	-1.24	-2.57
Year	-1.25	5.30	5.74	6.58	25.58	5.34
Equities						
Week	0.7	-0.5	-0.7	0.3	-3.4	-0.7
Month	0.9	0.3	3.6	2.6	5.5	0.1
Year	4.2	-0.8	35.9	19.8	47.1	15.8

### Best performing stocks from FT-A World Indices in local currency to 5/5/94

	Close	Week	% change	Year
Syntex Corp. (USA)	23.38	65.5	68.4	20.8
NE Industries (USA)	8.13	25.1	25.1	85.8
Pohjola A (Fin)	85.00	18.5	7.9	41.2
Vard (Nor)	37.00	15.6	-17.8	34.8
Scientific Atlantic (USA)	34.00	15.0	17.0	28.2
Comcast Corp. (USA)	18.00	14.3	-4.7	48.0
Fonderia (Ita)	16.505	13.8	23.4	16.7
Public Bank (Mal)	4.12	13.4	14.6	126.8
Armco (USA)	5.25	13.4	10.5	25.0
Pharmacia (Swe)	128.00	13.3	11.3	10.7

Source: Cash & Bonds - Lehman Brothers. Equities - D. Northall Securities. The FT-A World Indices are jointly owned by The Financial Times Limited, Goldman Sachs & Co. and NatWest Securities Limited.

been an embarrassing defeat at its annual meeting - due this Wednesday but now put off until August.

GE, in an effort to get Kemper to open bid negotiations, had submitted an annual meeting resolution to put four of its nominees on the board in place of Kemper directors up for re-election, including Mr David Mathis, the chairman.

Investors had a strong interest in voting for GE, since failure of the resolution would have probably sent Kemper's shares tumbling back towards the \$40 level at which they were trading before GE first made a bid approach.

That was because GE was unlikely to launch a hostile tender offer and there were no signs that GE's activity would flush out a rival offer.

Kemper's agreement to talk just days ahead of the annual meeting mirrors the white flag displayed in similar circumstances three years ago by computer company NCR, which after months of stone-walling opened negotiations with hostile bidder AT&T shortly before an annual meeting vote on the composition of its board.

Like NCR's stone-walling, Kemper's two months of rebuffing GE has served shareholders well. Its submission now is a sensible acknowledgment that the time has come to talk. It also removes the possibility that Mr Mathis might have lost his job on Wednesday - hardly an outcome to strengthen Kemper's hand in the hard bargaining that may yet lie ahead.

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## Economic Eye / Martin Wolf

### Dealing with the emerging Chinese giant



Under the rule of Deng Xiaoping, the long slumber of China's economy has ended. This creates possibly the most important policy challenge facing the West. Significant decisions - over whether to renew China's MFN (most-favoured-nation) status in the US, for example, and on what terms to let it into the General Agreement on Tariffs and Trade - must soon be taken.

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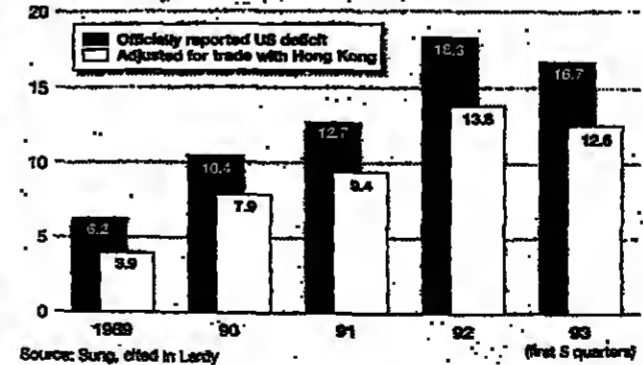
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### China's emergence on the world trade stage



Source: Lardy



Source: Surp, cited in Lardy

recent rates of growth were extrapolated, China would overtake the US by 2010. Against this, Prof Lardy argues that China's real income per head is only about \$1,000, no higher than India's. He also argues that supercharged growth is unlikely to be sustained after the year 2000. Should the growth rate fall to 5 per cent, China's output would not exceed that of the US until 2040.

These arguments seem mutually inconsistent. If China's real income is as low as Prof Lardy suggests, its potential must also be greater. China would then only be where South Korea was a quarter of a century ago. Since then the latter's economy has grown at close to 10 per cent per annum. Furthermore, the handicaps Prof Lardy points to - high levels of public ownership, bankrupt banks and continuing dependence on foreign entrepreneurship and capital - suggest that the rewards of further reform could be huge.

Much, however, depends on the rest of the world. Here Prof Lardy's arguments are more persuasive. He notes, for example, that China received an inflow of foreign direct investment in 1993 of \$28bn, up from \$6bn in 1991. In 1993, more than a quarter of China's exports were from foreign-invested firms, which accounted for 70 per cent of total export growth. Processing of duty-free imports into exports is also more important for China than for these east Asian countries.

These facts, along with the role of Hong Kong as an entrepot, make the US administration's beloved statistics on bilateral deficits more meaningless than usual. A correction for US exports to China, through Hong Kong, and for the value-added in Hong Kong on US imports from China is shown in the chart. But suppose a US export is incorporated into something made in Taiwan that is further processed in China. US bilateral trade statistics would miss this

altogether. It is interesting, therefore, that the US deficit with China, Hong Kong and Taiwan, taken together, has changed little since 1987.

China has, in short, an increasingly open economy, one that specialises on the basis of its comparative advantage and imports as much as it exports. It needs to be encouraged to proceed further towards becoming a transparent, market-based economic regime. Such a regime would, of necessity, also increase the legal rights of the Chinese themselves, precisely what the West is supposed to want.

Prof Lardy's recommendations include:

- abandoning the use of the bilateral trade imbalance as an indicator of the degree of openness of the Chinese economy;
- working for China's early entrance into the Gatt, preferably before the end of this year (which would make it a founding member of the World Trade Organisation); and
- providing China with permanent MFN status in the US.

All this makes eminent sense. Withdrawing MFN, for example, could be catastrophic for US bilateral trade: the World Bank estimates China's exports would then have fallen by between \$7bn and \$15bn in 1990. But it would also be an act of economic warfare, devastating to those Chinese who are pushing for reform, or benefit from it.

Furthering China's long-term integration into the world economy would increase its direct stake in stability and make it more likely that China would co-operate on non-economic issues as well, argues Prof Lardy. Against this view, Anthony Lake, President Clinton's national security adviser, has designated China a "backlash" state, along with Iran and Iraq. This is a ridiculous parallel, partly because the course of Chinese economic development promises something very different. More fundamentally, China cannot, like Iran and Iraq, be quarantined. The question is what sort of great power China will turn out to be. The China the West will experience is likely to be the China the West deserves.

Nicholas R. Lardy, *China in the World Economy* (Washington D.C. Institute for International Economics, April 1994).

Socialists

Market

Free fl...

John JAL Manager...

and computer...

before 30th June...

Order...







## EUROPE

INDICES										US INDICES										
	May 6	May 5	May 4	1994			May 6	May 5	May 4	1994			May 6	May 5	May 4	1994			May 6	
				High	Low					High	Low					High	Low		Since completion	
Argentina General (2/1/77)	1981.26	1982.51	1918.22	2349.00	1492	1778.90	2394						Industrie	3093.50	3025.97	3091.75	3075.38	3050.25	3078.94	41.22
Australia																				
ASX Composite (1/1/80)	2004.3	1981.1	2015.4	2349.00	372	1998.10	65						Home Sales	87.33	85.23	87.37	106.61	87.53	106.77	54.98
ASX 100 (1/1/80)	2004.3	1981.1	2015.4	2349.00	372	1998.10	65						Transport	160.02	162.76	162.03	162.50	162.50	162.50	17.01
ASX 200 (1/1/80)	2004.3	1981.1	2015.4	2349.00	372	1998.10	65						Utilities	180.33	182.79	184.00	227.88	185.85	225.06	10.50
ASX 300 (1/1/80)	2004.3	1981.1	2015.4	2349.00	372	1998.10	65						Day's High	3702.51	3701.07	3701.07	3701.07	3701.07	3701.07	0.00
ASX 400 (1/1/80)	2004.3	1981.1	2015.4	2349.00	372	1998.10	65						Day's Low	3685.57	3671.82	3671.82	3671.82	3671.82	3671.82	0.00
ASX 500 (1/1/80)	2004.3	1981.1	2015.4	2349.00	372	1998.10	65						Standard and Poors							
ASX 600 (1/1/80)	2004.3	1981.1	2015.4	2349.00	372	1998.10	65						Composite	47.82	45.18	45.12	45.80	45.82	45.80	4.40
ASX 700 (1/1/80)	2004.3	1981.1	2015.4	2349.00	372	1998.10	65						Industrie	52.02	50.57	50.61	50.50	51.05	50.50	3.82
ASX 800 (1/1/80)	2004.3	1981.1	2015.4	2349.00	372	1998.10	65						Financial	43.49	43.86	43.71	46.70	43.86	43.86	0.00
ASX 900 (1/1/80)	2004.3	1981.1	2015.4	2349.00	372	1998.10	65						NYSE Comp.	243.47	251.48	253.75	267.71	262.14	262.14	4.48
ASX 1000 (1/1/80)	2004.3	1981.1	2015.4	2349.00	372	1998.10	65						ASX Mid Vol	43.73	44.17	44.73	46.70	44.73	44.73	0.00
ASX 1100 (1/1/80)	2004.3	1981.1	2015.4	2349.00	372	1998.10	65						NASDAQ Comp	73.26	74.05	74.05	74.05	74.05	74.05	0.00
ASX 1200 (1/1/80)	2004.3	1981.1	2015.4	2349.00	372	1998.10	65													
ASX 1300 (1/1/80)	2004.3	1981.1	2015.4	2349.00	372	1998.10	65													
ASX 1400 (1/1/80)	2004.3	1981.1	2015.4	2349.00	372	1998.10	65													
ASX 1500 (1/1/80)	2004.3	1981.1	2015.4	2349.00	372	1998.10	65													
ASX 1600 (1/1/80)	2004.3	1981.1	2015.4	2349.00	372	1998.10	65													
ASX 1700 (1/1/80)	2004.3	1981.1	2015.4	2349.00	372	1998.10	65													
ASX 1800 (1/1/80)	2004.3	1981.1	2015.4	2349.00	372	1998.10	65													

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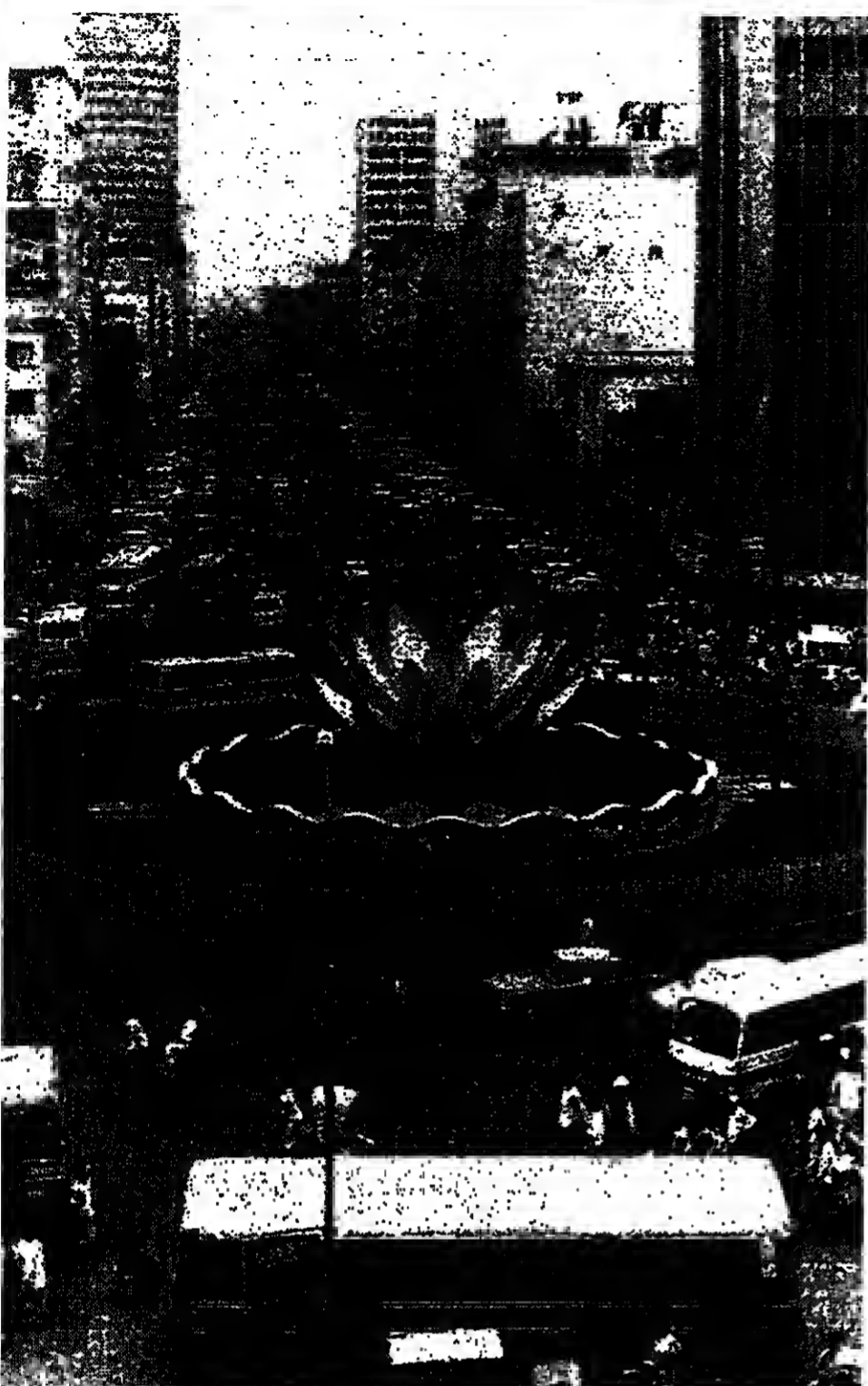
The economy: Why projects stay grounded....Page 11

## FINANCIAL TIMES SURVEY

## BANGLADESH

Monday May 9 1994

Foreign investment: Only a trickle despite incentives....Page 19



Disks: Institutions and elites are new; the middle-class lacks capital, skills and experience. PICTURE: A. K. M. SHARIF

For Bangladesh the struggle to capitalise on the gains it has made in the past three years of good harvests, democratic government and freedom from natural disasters is proving hard.

Mrs Khaleda Zia's assumption of power as prime minister in 1990, following the overthrow of the military dictator, General Hossain Ershad, has enabled the country to enjoy its longest period of political stability since its formation in a bloody independence war in 1971.

Although they remain among the poorest people on earth, Bangladeshis are slightly better off than they were, thanks to bumper rice crops. The government has brought its borrowing under control, taken some steps to liberalise the economy and is considering implementing many more.

There is a risk, however, that the gains could be lost. The next general election, due by early 1996, is already exerting a baleful influence on the country's politics, diverting attention from social and economic needs. Economic reforms are progressing at a snail's pace while politicians focus on party work.

Charges of election-rigging pollute the political air. Strikes and demonstrations have disrupted business. Islamic fundamentalists, numerically weak but nonetheless active, have launched bad-tempered attacks on the influence of foreign aid organisations.

There is still time for Mrs Zia, widow of the assassinated soldier-president Zia ur Rahman, to bring the political disputes under control and put the economy and fighting poverty back at the top of her agenda. But the window of opportunity is closing fast.

As Mr Jamal Uddin Ahmad, a former deputy prime minister turned businessman, says: "The political parties are fighting so much that we are heading towards a point of no return."

The tensions were heightened last month by the decision of the Awami League, the main opposition party, to call a

There is not much time for Mrs Zia to curb political disputes and put the economy and poverty back at the top of her agenda. Stefan Wagstyl reports

## A narrow window of opportunity

strike on the day when the prime minister was laying the foundation stone for a \$700m bridge - the biggest investment ever made in Bangladesh. A day which was meant to celebrate the nation's economic progress became an occasion for political squabbling.

Mrs Zia denies there is any risk of instability. She says: "The important thing is democracy and the democratic system. If democracy continues, then stability will continue

third of youngsters do not go to school. About 20 per cent of families have no access to safe drinking water. Without foreign aid, of which more than \$2bn is pledged every year, Bangladesh would even have difficulty feeding itself. Although population growth has slowed to 2.2 per cent a year, it is still so high that in just over 20 years Bangladesh will have 200m people.

Moreover, the country is not free of external difficulties. It is engaged in a festering dispute with India over sharing the waters of the Ganges river; and it has run into international criticism of its handling of tribal refugees from Myanmar and of a long-running insurgency among tribal Chakma people in southern Bangladesh.

Mrs Zia deserves some credit for trying to tackle the country's basic economic difficulties. The government has contributed by expanding poverty-alleviation and social welfare programmes and introducing a World Bank-endorsed economic liberalisation programme.

Government over-spending and inflation have been curbed. Prices are rising at less than 2 per cent annually. Controls on foreign trade and investment, including high import tariffs, have been cut, internal price controls relaxed and a start made on financial reforms and on overhauling debt-laden public sector industries and services. Last autumn, the taka was liberalised on the current account.

Liberalisation has particularly benefited agriculture. Bangladesh has become almost

self-sufficient in food grains and has started exporting modest amounts of high-quality rice. With the country's subsistence seemingly assured, agricultural planners are now looking to expand output further by encouraging crop specialisation.

Foreign trade has gained from liberalisation and the establishment of two duty-free export-processing zones. Boosted by the rapid expansion of the garments industry, over-

in the past has our economic position been so good."

And yet, even though Mr Rahman's host has far to go before it can satisfy even the basic needs of its people. The main problem is that economic growth - running at 4.5 per cent in recent years - is too slow to generate adequate resources for the future.

However, in order to reach growth rates of more than 6 per cent, which the government believes is the minimum required, Bangladesh needs to make radical economic changes, particularly to boost investment above its current level of about 13 per cent of output. The World Bank estimates a ratio of 18-20 per cent is necessary to lift Bangladesh into a higher level of economic activity. The immediate challenge is to raise public investment. Bangladesh has \$5bn of unused foreign aid in the pipeline waiting for the government to implement projects to which the funds are tied.

The start of construction on the Jamuna River bridge will help utilise money, so will work on the Flood Action Plan, a system of embankments designed to protect Bangladesh against floods. Preparations and pilot studies for a World Bank-sponsored programme have themselves cost \$150m. There are also ambitious projects to improve the exploitation of Bangladesh's abundant natural gas reserves.

Inexperience and inefficiency among ministers and civil servants alike combine to frustrate schemes, sometimes for years. The fear of corruption, coupled to the measures taken to prevent it, ties the government into knots. Mr Rahman has promised to speed decision-making, but aid donors see little sign of improvement.

Without more public investment, private investment will be slow in coming and limited to small projects. Industry needs more support than Bangladesh provides - electricity generation is just 80 kilowatt hours a head a year, compared with 200-350 in India, Sri Lanka and Pakistan. There are just two telephones for every 1,000

Continued on Page 2



Finance minister Saifur Rahman: "Never in the past has our economic position been so good"



Prime minister Khaleda Zia: "The important thing is democracy and the democratic system"

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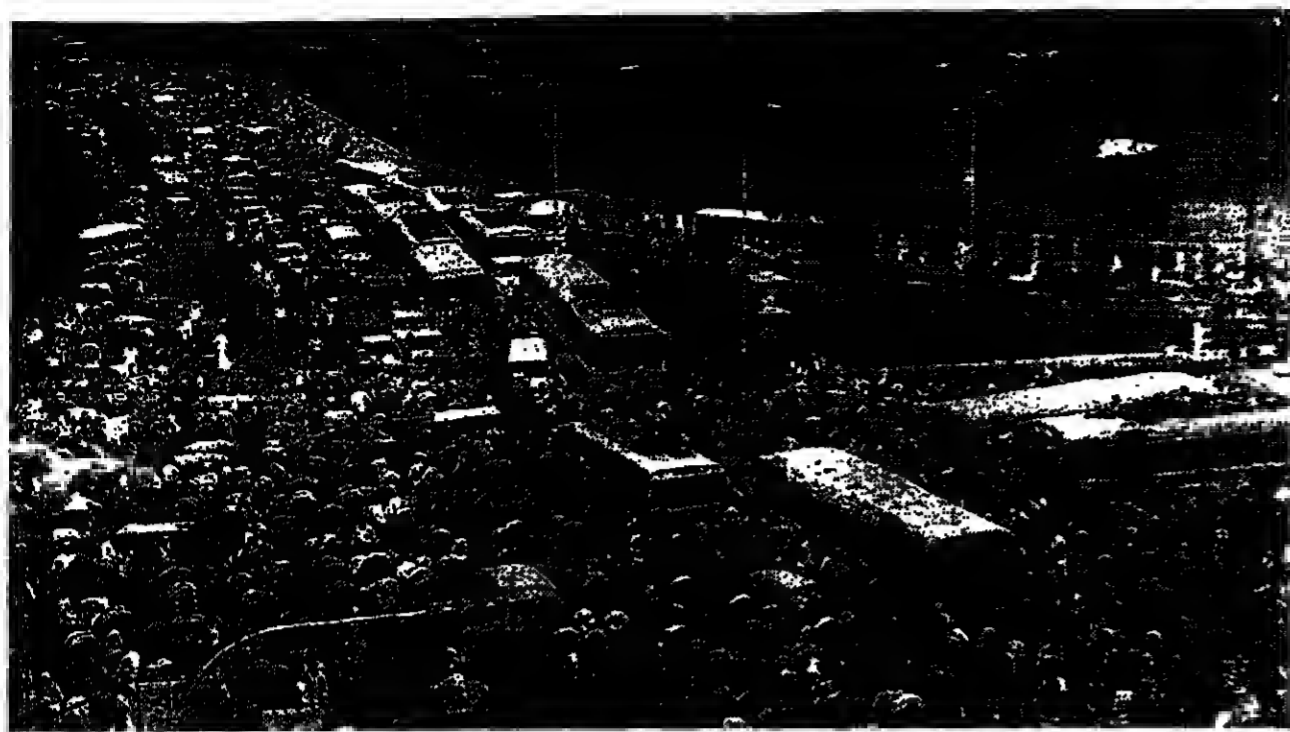


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## BANGLADESH II



Bangladesh is crying out for investment. Without faster growth, it cannot hope to meet the needs of its swelling population

Stefan Wagstyl on the country's most important economic failing

## Why projects stay grounded

Last month, Mrs Khaleida Zia, the prime minister, visited the black sandbanks of the river Jamuna in central Bangladesh to lay the foundation stone of the country's biggest-ever investment - a \$700m bridge. The bridge is sorely needed to link north-west Bangladesh with the rest of the country. Today, lorries must queue all day to cross the river by a three-hour ferry ride. Monsoons, floods and droughts disturb the traffic, as does the constant shifting of the sands in the Jamuna's shallow bed.

Bangladesh is crying out for investment. From the Jamuna bridge to automatic spinners in the textile factories and filling machines on the farms, the country needs capital to help promote economic growth. Without faster growth, it cannot hope to meet the needs of its swelling population.

The government and development organisations monitoring Bangladesh, led by the World Bank, regard the lack of investment as the country's most important economic failing.

Moreover, at least as far as public investment is concerned, the problem is not a shortage of funds. It is a lack of experienced and well-motivated politicians and bureaucrats able to implement the

projects on the country's books.

For private investors political uncertainty, bureaucratic foot-dragging and the poverty of potential consumers all hold back business activities. Local investors have been as slow to commit themselves as foreigners. However, there are signs that a few large private projects now under consideration could come to fruition and perhaps stimulate the drawing up of other proposals.

Thanks to the skill of Mrs Zia's government in bringing

**Controversy surrounding the \$510m Karnaphuli fertiliser plant has cast a shadow over large-scale investments**

public borrowing well under control and curbing inflation to about 2 per cent a year, there is plenty of scope for the government to expand the public investment programme. World Bank officials believe that, far from crowding out private investment, an increased flow of public investment would stimulate private activity. The Jamuna bridge is a good example - it will permit farmers in the rural north west to bring more of their crops for

sale in central Bangladesh, including Dhaka, while also giving Dhaka-based manufacturers better access to distant markets.

Mr Zaifur Rahman, the finance minister, is committed to increasing the ratio of investment to economic output to an estimated 14.5 per cent in the year to June 1994 from 13 per cent in 1992-93. The eventual target is 18-20 per cent.

Foreign aid donors would be ready to increase the amount of aid pledged to Bangladesh above the \$2.1bn promised for 1994-95, which is roughly the same as in the past two years. However, with \$5bn in unpaid funds in the pipeline, there is no reason to raise contributions.

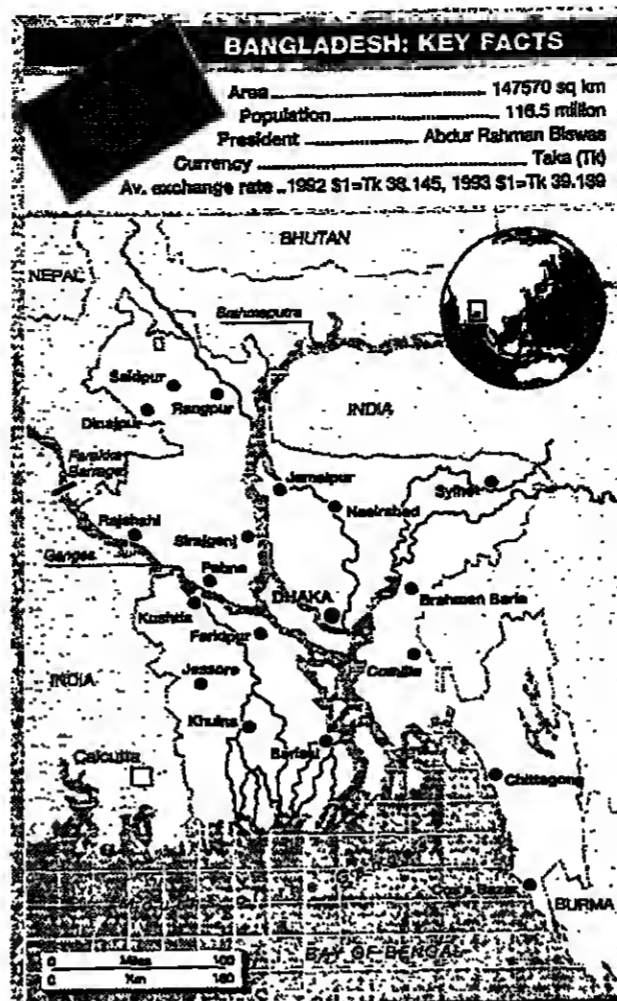
One western diplomat involved in aid projects blames "a weak government, low quality ministers and civil servants" for the delays in public investment. Among the serious losses Bangladesh suffered in its 1971 independence war was the flight to Pakistan of many senior administrators who were of west Pakistani origin. Nor did the new country's espousal of socialist economic policies enable civil servants to acquire experience of running open economies.

Mr Rahman says improved monitoring of schemes will

accelerate the investment flow, but diplomats of donor countries say they see little change as yet.

The controversy surrounding the \$510m Karnaphuli fertiliser plant, a joint venture between the government, foreign aid donors and Japanese companies, has also cast a shadow over large-scale investments. First conceived in 1980 and coming on stream later this year, the plant has been dogged by arguments about the wisdom of using Bangladesh's scarce gas resources for fertiliser production instead of fuel. Whatever the merits of the dispute, its effect has been to call into question the government's ability to implement mega-projects.

However, the donor countries' decision to back the Jamuna bridge scheme, which has also been under consideration for over 10 years, shows they are still willing to take risks in Bangladesh. Similarly, they are supporting a wide-ranging flood action programme to reduce the impact of future floods following those which devastated the country in the late 1980s. By comparison, private sector investments in Bangladesh are mostly small. Factories for garments, leather and handicrafts, rarely cost over \$100,000.



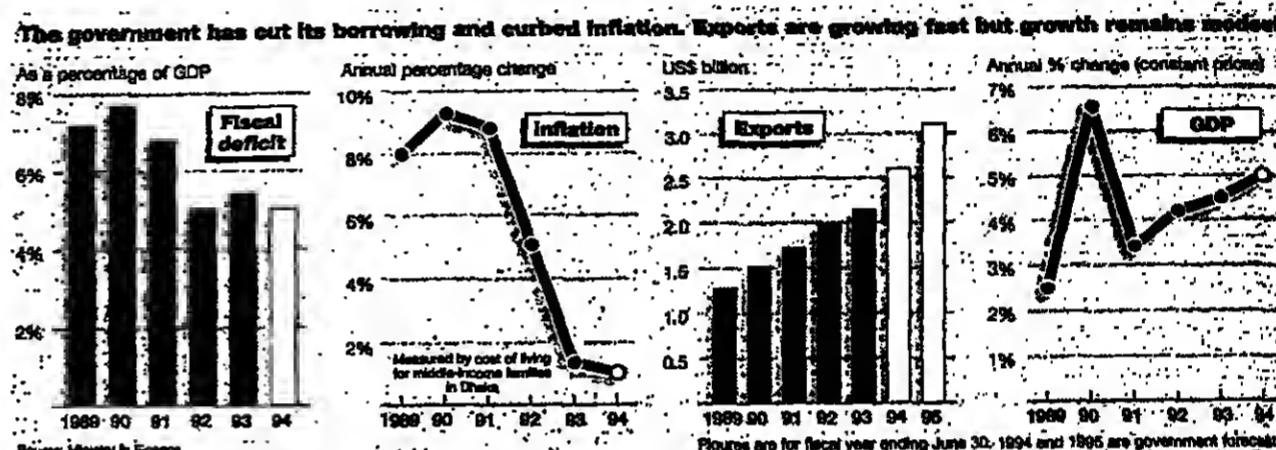
## BANGLADESH: KEY FACTS

Area 147,570 sq km  
Population 116.5 million  
President Abdur Rahman Bhaswa  
Currency Taka (Tk)  
Av. exchange rate, 1992 \$1=TK 36.145, 1993 \$1=TK 35.199

## Economy

	1991/92	1992/93
Total GDP (Tkbn, provisional)	906.5	970.2
Real GDP growth (%)	4.2	4.5
GDP per capita (\$)	208	212
Components of GDP (%)		
Private consumption	58.1	67.7
Total investment	12.1	12.5
Public consumption	11.8	11.8
Exports	8.0	9.6
Imports	14.0	14.3
Annual average % growth in		
Consumer prices (middle income families)	5.1	1.3
Industrial production	7.3	7.7
Narrow money	14.5	9.8
Broad money	14.1	10.8
Discount rate (end period, %)	8.5	8.0
Overseas workers remittances (\$bn)	649	944
Aid inflows (\$bn)	1811	1675
Total external debt (\$bn)	11898	12254
Reserves minus gold (end period, \$bn)	1824.6	2410.8
Trade		
Current account balance (\$bn)	-405	-780
Merchandise exports (\$bn)	1993	2138
Merchandise imports (\$bn)	3483	3286
Trade balance (\$bn)	-1559	-1848
Main trading partners (% share, 1992)		
United States	35.0	7.8
Germany	7.8	3.6
UK	7.2	3.9
Italy	6.5	0.8
Belgium	3.3	0.4
Netherlands	3.2	1.8
EU	35.0	12.8

1 Current prices. \*Fiscal year ending June 30 unless otherwise indicated. Source: IMF, ILO, Bangladesh Bureau of Statistics, Annual Report Bangladesh.



The returns can be spectacular - recent investments in the garments industry have seen entrepreneurs recover their money in a year.

Mr Jamal Uddin Ahmad, a former deputy prime minister turned business consultant, says: "Bangladesh generates these small high risk, high return investments. But what we need is to create a more stable environment to encourage more long-term local investment and eventually for-

sign investment as well."

A handful of larger investments are in the pipeline. Total, the British subsidiary of Coats Viyella, which operates a spinning mill in Bangladesh, is building a \$50m extension to increase capacity threefold. Bangladesh Tobacco, an affiliate of BAT Industries of the UK, is considering a \$30m plan for modernising tobacco and cigarette production.

In the longer term, foreign companies are interested in

investing in telecommunications, transport and energy, if these state-dominated industries are opened up to private investment as the government plans. In oil and gas, Holland Sea Search of the Netherlands and Cairns Energy of the UK are the first of seven international oil exploration groups to have completed exploration and production agreements. Other potential investors include Occidental Oil of the US and France's Total.

In electricity, International Energy Group of the US and BP Goenka Group, an Indian business group, have proposed plans for building and operating privately-owned power stations - but detailed rules for the entry of private companies have not yet been established. The government hopes to complete a new energy policy, including rules for private sector participation, next month.

Stefan Wagstyl

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## DHAKA STOCK EXCHANGE

## Enter the foreign investor

The sight of foreign capital has stirred the sleepy Dhaka Stock Exchange into action.

An estimated \$50m has flowed into Bangladesh since the end of last year, borne by the tide of money washing through emerging markets over the past 12 months. It amounts to a few drops of capital compared with the buckets poured into India and China, but for Bangladesh any sign of foreign investment interest is welcome. After rising a mere 6 per cent last year, the Dhaka SE index has doubled in 1994.

"This is the first time foreign investors are investing in Bangladesh," says Mr Kurshid

Alam, the DSE chairman. Fund managers who have visited Dhaka include executives from the Hong Kong-based Regent financial services group, which manages the Regent Pacific Mutual Fund, which invests in southern Asia, from Jardine Fleming of Hong Kong and Fidelity of the US. Stockbrokers from Smith New Court of the UK and W.I. Carr, an affiliate of France's Banque Indosuez, have also called on Mr Alam and his colleagues.

Foreigners now own an estimated 5 per cent of Bangladesh stocks which have a combined capitalisation of about \$1bn. There are no ceilings on foreign ownership of the 142 listed companies. But stock can be difficult to acquire because an estimated 80 per cent of shares are owned by founding entrepreneurs and their families and a

further 40 per cent locked in long-term holdings with government financial institutions. Mr Imtiaz Hossain, a broker and investment adviser, says this leaves only about 10 per cent of stock floating free. "Of course, this tends to drive up prices."

Foreign buyers have concentrated on about 15 leading shares whose prices have climbed 300 per cent and more. For example, Beximco, a diversified trading company, was quoted last month at Tk200, more than four times higher than its low of last year of Tk18. Bangladesh Tobacco, the affiliate of Britain's BAT Industries traded last month at Tk230, up from last year's low of Tk70.

The trading room is a dark hall in which tables covered with white tablecloths are set out in a circle. The stockbrokers sit at the tables, with



Trades are settled in five days. There is no forward or futures market

microphones in front. Trading is carried out in bursts of frantic shouting into the microphones. Officials record the prices in chalk on a large

blackboard occupying one whole wall of the room. Trades are settled in five days. There is no forward or futures market. The market is

supervised by a Securities Commission, founded only last year.

Stefan Wagstyl

## Window of opportunity

Continued from Page 1

people when even India has seen a boom.

This year will be the last for crossing on the road from Bangladesh to the second city of Chittagong be replaced by a bridge.

One reason why public investment is slow is that the government's time and money is being swallowed up by the loss-making, over-manned, state-owned industry. The gross losses in 1993-93 amounted to about 20m taka, the equivalent of 45 per cent of external aid disbursements. Moreover, the inefficiency of these industries acts as a drag on the rest of the economy, raising costs and disuading companies from investing.

Prodded by the World Bank, the government has committed itself to streamlining enterprises, liberalising the state-dominated financial markets, privatising and opening basic services such as electricity generation and telecommunications to private investment.

Overall progress with privatisation is painfully slow. Only two of about 40 enterprises identified for stock market flotation have actually been sold. Measures to attract private investment into infrastructure are only beginning to be implemented. The government was due to sign its first contract for oil and gas explo-

ration with a foreign consortium this month.

The latest indications are that the government is more likely to slow economic reform than to accelerate in advance of the next general election. The ruling Bangladesh National Party was defeated in municipal elections in Dhaka and other cities in March - a setback which Mrs Zia says was partly due to the unpopularity of reform.

The obstacles to further progress are many: politicians who are more interested in fighting over the existing political and economic turf than increasing future acreage; civil servants worried that liberalisation will curb their powers, including access to bribes; strike-prone trade unions which resent the job cuts that serious public sector reform would bring; Islamic fundamentalists seeking to exploit deep-rooted suspicions of programmes advanced by foreign donors; and poverty and ignorance.

But amid the gloom there is also hope. Bangladesh's fight against poverty has spawned two of the world's most successful non-profit organisa-

tions - Grameen Bank, a co-operative bank which has won endorsement from President Bill Clinton for its work with the poor, and the Bangladesh Rural Action Committee (BRAC), which has a range of programmes including credit co-operatives, chicken farming,

schools, and health centres. These institutions show how even the very poor can take advantage of opportunities, given the right encouragement. As Mr Mohammed Yunus, Grameen Bank's founder, says: "Poverty is a very powerful motive for action."

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The numbers tell the remarkable story. During the period 1989-93, the turnover increased only 41% to Tk. 2,853m in 1993, as the group moved away from trading and into manufacturing. However, during this 5 year period profit registered a compounded annual increase of 138% and in 1993 stands at Tk. 219 m. Total Assets rose from Tk. 1,309m in 1989 to Tk. 4,828m in 1993 and Net Worth from Tk. 186m to Tk. 1,204m. Financial participation by international DPs like ADI, CDC, DEC, FMO and 62,000 investors is yet another testimony to BEXIMCO's strong business goodwill. Total market capitalization at present of 6 BEXIMCO companies listed with DSE is Tk. 3,794.15m which is 15.7% of the total stock market capitalization.

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BEXIMCO's beginnings can be traced back to 1966, 27 years ago, when New Dacca Industries commenced production and export of high quality jute yarn. Since then, the BEXIMCO companies have consistently progressed and expanded operating in a diverse range of industrial sectors - pharmaceuticals, textiles and marine foods, to name only the major ones. BEXIMCO aims at selecting new activities carefully, where maximum advantage can be taken of its own extensive accumulated business experience as well as the competitive advantages provided by Bangladesh's economic structure.

BEXIMCO brings the synergy of a well structured organization to the new ventures it undertakes. Currently the 7,200-strong Beximco team spread over its 19 companies are composed of enthusiastic, youthful and highly motivated professionals.

Sheila Jones examines a water dispute between India and Bangladesh

## When the Ganges runs dry

India's Farakka dam this year celebrates its 20th anniversary, but a water-sharing dispute with Bangladesh that goes back even further is far from settled while tens of millions go hungry.

The dam, 11 miles inside India's eastern border with Bangladesh, slows the Ganges as it turns south towards the Bay of Bengal.

India built the dam to flush out silt from the port of Calcutta. Millions of tonnes of water are diverted daily from the Ganges into India's Hooghly river and south to the coast.

But the diversion has dried out the south-western edge of Bangladesh, where the Ganges and its tributaries feed the region's agricultural land. Last year, for the first time since the dam was built in 1974, there was too little water to power irrigation pumps at the mouth of the Gori river, the Ganges' main tributary in Bangladesh. The pumps have been idle again during this year's dry season. The Ganges-Kobadak irrigation project, the country's largest and until now its most successful, has ground to a halt.

Most of the south-west region's 193km of main irrigation canals are dry. Where there is water, it is stagnant. Last year, Bangladesh received barely a third of the Ganges flow. Farmers say they lost a third of their rice crop last year, at a cost of Tk1bn. The soil was too hard for planting the dry season crop. They expect this year's harvest to be little better.

There is hardly a current at Hardinge Bridge, 15 miles inside Bangladesh, where the Gori leaves the Ganges. Further downstream, there is no flow at all, only sandbanks and stagnant pools. The Gori has dried up.

At Kushtia, 25 miles downstream of the Gori pump house, a few scruffy boys kick a football across the river bed. The Gori ferry stands idle as

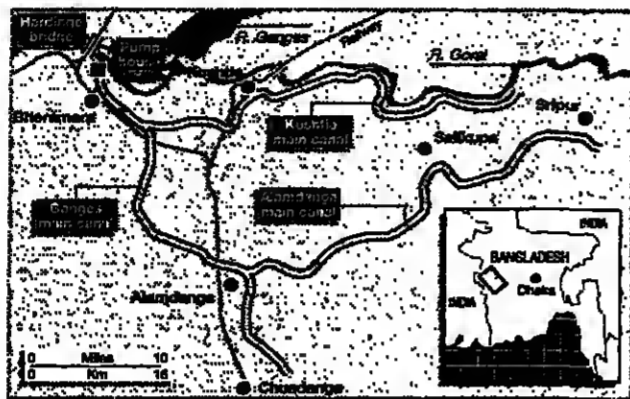
trucks ease their way down the river banks onto rutted tracks heading east.

Monsoon rains will replenish the river in a few weeks, but even now, in the dry season, it should flow strongly, feeding 350,000 acres of agricultural land.

The Ganges is running so slowly that silt is building up in the Gori mouth, where sandbanks stand 8-10 feet high. The shallower river bed means the river cannot contain sea-

Mr Mondal says the landless - about a fifth of the region's 50m population - are suffering most. "There is no compensation for their losses. Farmers are only just surviving. They simply have to eat less."

Farmers who normally sell a quarter of their crops produced only enough rice last year for their own consumption. Farm labourers with nothing to do in the dry season scramble for any work they can get, but there is little on offer.



sonal flooding. The water spills over onto the land, ruining the soil and spoiling crops. The uneven flow from Farakka is battering the Ganges banks, causing it to shift and encroach on agricultural land. Mr Abdul Rahman Mondal, an adviser on the G-K project, fears that recent advances in living standards are being lost because of the damage to fish stocks and agriculture. The region is going backwards, he says.

"In years to come, this area will be a desert. The farmers will be back where they started, when they were very poor indeed. Gradually, and with the help of this irrigation programme, they have come up. They are better dressed. They have pukka houses and food. In another few years they will have nothing unless the Ganges flow is restored."

Alam, 36, says he might earn a few taka helping irrigation workers to shift sand from the river bed. Last year, he had enough rice in stock to maintain his income and feed his family. But it is much harder this year.

Mr Shaikh Abdul Momin, who is responsible for water management on the G-K project, says that only the few farmers rich enough to have water pumped from below ground have produced dry season rice. But this cannot solve the problem for the whole region, he adds, because depletion of the water table is threatening supplies of drinking water and will disrupt the ecological balance.

Bangladesh has appealed to India over the past two decades for a greater share of Ganges water. "We have been talking about Farakka since the incep-

tion of Bangladesh [in 1971]," says Mr Majid ul-Haq, agriculture and water minister.

In 1977, India guaranteed a minimum of 80 per cent of the Ganges flow under a five-year treaty. There has been no formal water-sharing agreement since the treaty lapsed in 1982.

Since then, the Ganges water level has dropped dramatically. Mrs Khalsida Zia, the prime minister, has raised the dispute with the United Nations in the hope that it will put pressure on India to release more water. She has told the UN it is a life-and-death crisis.

"India is a big country, and it has many resources so it should not harass a small country like Bangladesh," says Mrs Zia. "We are not demanding any of their share of the water. We are simply demanding our rightful share."

Mr PV Narasimha Rao, India's prime minister, told Mrs Zia at a summit meeting in 1992 that an agreement had to be made for sharing "the flow in the Ganges on an equitable basis". But since the summit, and despite further pledges from India, little has happened.

India has also suggested broadening the discussion to include the Brahmaputra and other rivers in the region. But it rejects all moves by Dhaka to bring in outside organisations, such as the UN, or other parties like Nepal, whose rivers feed into the Ganges.

Bangladesh is in a weak position: India is upstream and it is a much larger country. The only pressure on Delhi is the illegal movement of about 10m Bangladeshis across the Indo-Bangladesh border in the past 20 years. They have moved to try to escape poverty, partly induced by the drought.

Bangladesh dismisses India's suggestion that it should build a link canal from the Ganges to the Brahmaputra to increase water supplies. "It goes completely against the grain of nature," says Mr ul-Haq, adding that such a link would destroy crop land and displace thousands of people.

Industry is suffering too, he says, because corrosive saline water has crept inland from the south. Factories have to bring in fresh water, at great cost, for cooling and processing.

Increased salinity is also threatening the regeneration of timber-bearing trees in the region's mangrove forests.

Thousands of people employed in river transport are without work in the dry season. Fish stocks have been depleted, causing losses estimated at Tk4bn in recent years.

Workers on the G-K irrigation project say health problems will follow as washing declines and drinking water from underground is depleted. "The health problems will come gradually," says Mr R.C. Das, an irrigation engineer at Chittagong, the southernmost town of the G-K area.

"In the next 10 years, I am afraid people will die. Fifty or 60 farmers came here last week demanding water. They were shouting for it. But what can I tell them? I have none."

### EXPORTS

## Garments industry leads

Monno Khan enjoys the irony of selling plates to Staffordshire, the home of British pottery. The UK was his company's first overseas buyer. Today, Monno Ceramic Industries, Bangladesh's biggest producer of porcelain tableware, sells to 51 countries.

Monno, like Bangladesh as a whole, is looking to export for growth. "We should go for exports in any form, whether porcelain or other products, to give employment to our millions of people," says Mr Khan, chairman and managing director.

Monno's exports have risen more than five-fold in the past five years. Total sales are expected to rise to about Tk440m this year, with exports - mainly to the European Union and the US - taking an increasing share.

Ceramics represents only a tiny portion of the country's exports - 0.24 per cent last year - but the sector is one of a few that in recent years has shown dynamic growth and expanding overseas markets. Bangladesh's total sales abroad last year rose by 19.5 per cent to Tk2.4bn, covering almost 60 per cent of the country's import bill, and the government is predicting a further 18 per cent increase this year.

The garments industry is the country's biggest exporter and one of its best hopes - along with a clutch of smaller growth industries including frozen foods, leather and ceramics - for providing jobs and underpinning export-led growth. The sector has grown rapidly in the past 15 years, helped by economic liberalisation, fiscal incentives, low wages and a relatively disciplined workforce. It is the country's biggest industrial employer, with about 800,000 workers.

Last year, exports of ready-made garments rose nearly 19 per cent to Tk48.2bn - some 52 per cent of total exports. The US market accounted for 52 per cent of Bangladesh's garment exports last year, and the

European Union 40 per cent. But growth in recent years has failed to match the rapid expansion of the 1980s as new players have entered the market and the developed world has languished in recession. With its principal markets recovering, the Bangladesh Garment Manufacturers and Exporters Association says its main concern now is the industry's dependence on imported raw materials and fabric. Less than 2 per cent of fabric used in the garments industry is produced locally.

"Last year, we could not reach our growth target because of a fabric shortage caused by poor cotton harvests," says Mr Redwan Ahmed, the association's president and a Bangladesh National Party MP. "Some of our orders were cancelled because prices went too high. It is our duty to invite foreign investors or sunset industries in developed countries to relocate their factories here," says Mr Ahmed.

Fortuna garments has just moved into a new factory in Dhaka, where it has capacity to make 5,000 garments a day, mainly shirts and trousers for the US market. Fortuna says its shirts cost about \$1 each to produce. They sell wholesale at \$4-6 and retail in the US at about \$40-60. Fortuna, like other large manufacturers, wants to increase value-added work and to reduce its dependence on imported fabrics.

"We aim to be fully integrated and will start by weaving next year," says Mr Mohammad Abu Taher, managing director. "Then we will go on to dyeing and finishing, perhaps with a foreign partner."

Mr Akmal Hossain, director-general of the Export Promotion Bureau, concedes that the future for garments lies in full integration, and says the government is ready to support the industry. "In garments, backward linkage is one of the most important areas. It will be hard for us to survive in competition with others when import quotas are phased out under the new Gatt [General Agreement on Tar-

iffs and Trade] agreement. We must go for a whole industry."

The wider push for exports, drawn up under World Bank guidance, prompted the government last year to open a second Export Processing Zone, a duty-free area for companies selling 100 per cent of their output abroad. The EPZs, one in Chittagong and the second in Dhaka, aim to draw in foreign capital; to widen the country's economic base by fostering new and developing industries; and to generate jobs, particularly in more advanced technological sectors.

But the rate of arrivals has been slow and Bangladesh continues to lag behind its Asian neighbours in attracting foreign capital or the transfer of technology. Much of Chittagong's EPZ stands vacant, and only light industry has moved in.

While some foreign investors applaud improvements in incentives, others complain of an overbearing bureaucracy. Only 44 foreign companies - among them Japanese, South Korean, US and Hong Kong companies - have set up in Chittagong since the EPZ opened in 1993. Of these, 13 are joint ventures with local companies. A further nine are Bangladeshi. Total investment at the site is barely \$140m, providing about 25,000 jobs.

If foreign investment from the developed world is slow in coming, the industry's best hope may be with India, says Mr Jamal Ahmad, a former senior minister in the Bangladesh government. He says it is easier and more profitable for Bangladeshi entrepreneurs to smuggle fabric from India than to invest at home because of a porous border and the taka's relative strength against the rupee.

India should be allowed free access to the Bangladeshi market, he says, encouraging it to buy more from Bangladesh and to enter into joint ventures.

Sheila Jones

Agriculture is back on its feet, writes Sheila Jones

## Bumper rice harvests

Like a punch-drunk boxer, Bangladesh has reeled from the blows of flood, drought and cyclone. Its crops have been washed out, dried up and blown away. About 300,000 people have died in natural disasters in the past seven years.

But after a devastating cyclone in 1991, and despite flash floods last year, agriculture is back on its feet, producing bumper rice harvests in the past three years.

Agriculture dominates the Bangladeshi economy. It accounts for about 36 per cent of total output, employs 80 per cent of the labour force and determines incomes and consumption for the vast majority of Bangladeshis. Rice dominates the sector, accounting for about 70 per cent of cropped land. The rest is accounted for by pulses, wheat, jute, oil seeds, sugar plants, tea, spices, vegetables and fruit.

Last year, Bangladesh achieved a long-sought goal of foodgrain self-sufficiency. Rice production has risen from 14.2m tonnes in 1983 to 18.5m tonnes last year, keeping pace with the country's rising population. A rice harvest of about 19m tonnes is expected this year, despite lower output in the south-west region.

Mr Majid ul-Haq, agriculture and water minister, says the improvements have been achieved through research, which has produced high-yielding rice varieties as well as a greater willingness among farmers to experiment.

Research and development in the past 14 years have produced a wider use of high-yield rice, improved farming methods, greater use of fertiliser and more widespread irrigation, mainly through deep tube wells and irrigation canals. The amount of cultivable land under irrigation has increased markedly in the past few years from 17-20 per cent to about 35 per cent. Mr ul-Haq says the figure could rise to between 43 per cent and 45 per cent if Bangladesh resolves its dispute with India over sharing water from the Ganges.

But Mr ul-Haq believes that improvements in rice yields and fertiliser use could reach their limits in five to six years, by which time, the population is likely to have risen to about 130m.

"The population growth that will come about past the year 2000 will really pose some problems," he says. The higher population will demand production of several million tonnes more foodgrain. At the same time, housing will encroach on agricultural land so the government will have to find new forms of housing. "Perhaps we are not rising vertically as fast as we should be," says Mr ul-Haq.

Much of the land is broken into tiny plots with farms of less than one acre accounting for about 40 per cent, while about 5 per cent of farm households own and operate more than 25 per cent of agricultural land. This means that recent technological advances have tended to favour a growing number of large landowners, although aid agencies say that even the smallest plots of land have benefited, particularly from the increased use of fertiliser. In addition, agricultural employment has increased with the use of high-yield rice, which is between 20 per cent and 50 per cent more labour-intensive than traditional varieties.

But even today, despite improved harvests and lower rice prices, millions of Bangladeshis are still going hungry. Some aid workers say the government is still moving too slowly to improve farm outputs and that implementation of new technology and farming methods is hampered by bureaucracy.

About 30m Bangladeshis cannot afford even 1,805 calories a day (50 per cent less than the minimum intake recommended by the World Health Organisation), according to a recent aid agency survey. The report - *Fork in the Path: Human Development Choices for Bangladesh* - puts some of the blame on an over-concentration on rice at the expense of more nutritional foods such as beans and pulses. Foodgrains production would have to be increased by 1.7m tonnes to feed the population adequately. Even then, says the report, the poorest families in both urban and rural areas would be unable to buy enough food; their only long-term hope for food-security is productive work.

Research is under way to produce still higher-yielding rice seeds, and varieties more resistant to flooding and higher water salinity. The government is also encouraging a shift from rice to wheat, which requires less water than rice and can be grown out of the rice seasons, although yields drop in high temperatures. "People have taken more to wheat. It has taken us 30 years, but now it is quite common for wheat to be served in at least one meal a day."

The government is also encouraging the introduction of farm machinery. The low cost of labour has discouraged invest-

## BUSINESS GUIDE

gaon, which belongs to the Pan Pacific Hotels chain, and the Dhaka Sheraton. The fax numbers are 818324 and 832915 respectively.

In Chittagong, the best hotel is the Hotel Agrahad, fax number 81-2257.

Offices and housing: Office space of modest quality in central Dhaka and Chittagong is available for 25 US cents-plus-a square foot a month. Houses rented to foreigners as homes cost \$500-\$1,500 and more a month.

Currency: The taka is convert-

ible on the trade and current accounts. One US\$ is worth 40.30 taka. The pound trades at 60.16 taka.

Trade and investment: Bangladesh offers some of the most liberal conditions for foreign trade and investment of any developing country, including tax holidays of five to 12 years.

The government's Board of Investment offers extensive advice and support, including help with hotel and travel and making contacts with Bangladeshi companies.

The board's fax number in

Dhaka is 833626. The telex number is 642212 BOI BJ. Trade bodies: The apex organisation is the Federation of Bangladesh Chambers of Commerce and Industry in Dhaka. The fax number is 863213.

The Foreign Investors' Chamber of Commerce and Industry, the forum for foreign businessmen, is also in Dhaka. The fax number is 863688.

Stock exchange: The Dhaka Stock Exchange is located at 9F, Motijheel Commercial Area, Dhaka 1000. Telephone numbers 239882 and 231955.

Compiled by Reazuddin Ahmed and Stefan Wagstyl

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## BANGLADESH IV

## Only a trickle of foreign investment

Bangladesh is attracting only a trickle of foreign investment despite a raft of incentives and cheap labour, writes Sheila Jones.

Total foreign investment stands at barely \$900m, the bulk of which is in one single project, the \$510m Kafco fertiliser plant. Tax holidays and duty-free facilities in two Export Processing Zones have attracted only about \$140m in the past 10 years.

Many foreign businessmen say they are put off by an overbearing bureaucracy, poor industrial relations, low productivity, and an underdeveloped infrastructure. They also worry about political stability and a lack of protec-

tion under business and contract law. Mr Ian Sangster, managing director of Lever Brothers Bangladesh, the UK subsidiary, complains about copyright infringement and the lack of intellectual property rights. He points to a row of soaps on a shelf at the company's Chittagong headquarters, imitations of Lever's famous Lifebuoy brand: Life Bath, Lifeboy, Life Joy and Lucky Boy.

Lever's Wheel household soap sells variously as Wheel, Wheel and Will. "It's a massive problem," says Mr Sangster. "But there is no support from the law. It is not a criminal offence."

He also points to the slow pace of moving goods. "It can take four to six weeks to get a consignment cleared through customs, where it would take as many days in the UK. That delay costs us."

Some businessmen complain about constantly changing faces in government ministries and the slow pace of legislative reform. Others say that borrowing costs to business are higher than they should be because banks fail to fully differentiate between their best and worst customers. "So I'm paying the cost of other people's bad debts."

Mr K. M. Iqbal, deputy general manager of James Finlay, the UK trading company based in Chittagong, says the government's tariff structure penalises local producers. "It can be cheaper to import a finished product than to make it here," he says. "Even efficient companies are finding it tough."

But James Finlay, like Lever Brothers, has been in Bangladesh for many years and intends to stay. It is well established, knows the system and is making profits; Tk64m last year before tax, on turnover of Tk845m. It is the newcomers which the government is finding difficult to attract.

"There is a lot of apparent political instability frightening investors - and they're partly right," says Mr Iqbal. "But democracy takes time. Inevitably there will be teething problems."

Kafco stands to lose \$8m a month if it is unable to start operating. The company says the government will have to pay interest on the loans due in July next year if it fails to supply the plant with gas.

For Bangladesh, the Kafco project is important as a model for other foreign investors, which the country desperately needs. If it flops, foreign investors might be unwilling to risk their money again.

The government is not convinced that the Kafco project is perfect for Bangladesh, but it now feels it cannot allow it to fail. "There is no scope for second thoughts on this project," says the energy minister. "It has reached the stage where it must go ahead. But if someone comes along now and suggested constructing such a plant, I would discourage it."

Kafco's managing director, Mr M. Towhid, grins his teeth and smiles. He, too, believes Kafco has to go ahead.

"This is the ultimate test of whether projects of this magnitude are ever likely to succeed in Bangladesh," he says. "The country is hungry for foreign investment and everybody is watching to see what becomes of Kafco. They are watching to see if Bangladesh honours its commitments."

"I have no reason to doubt that it will, but it will have to get gas to us on time. Otherwise, we're going to be a big white elephant."

The bulk of the funding is from Japan's export credit agency, with \$380m in loans, and \$38m from Italy's export credit agency. There is a \$100m commercial loan syndicated by Citibank, with the rest of the funding from the UK's Export Credits Guarantee Department, a \$5m grant from Denmark's development aid agency and a soft loan from the Nordic Development Fund.

Kafco can only wait and hope. But much is at stake for both Bangladesh and its foreign partners, led by Chiyoda of Japan, which is also lead contractor. Other big foreign shareholders are Marubeni and the Overseas Economic Co-operation Fund, both of Japan. Smaller stakes are held by the Commonwealth Development Corporation of the UK, Haldor Topsoe of Denmark, and Starm Carbon of the Netherlands.

"Kafco will get its gas," says Mr Khandaker Mocharrar Hossain, the energy minister. "We have enough to supply the plant for two to three years."

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Companies and agencies from five countries are involved in the \$510m Chittagong fertiliser project

Sheila Jones on a project with a troubled history

## Problems linger on

allegations of corrupt deals with the previous government.

The BNP agreed to back the loans in 1992 only in exchange for places on the Kafco board and an increase in the gas price from the previously agreed 76 cents per thousand standard cubic feet, to \$1.

Now, with those political troubles in the past, Kafco is bracing for business.

But there are still problems. Production of ammonia and urea requires two main raw materials: water and natural gas. At the moment, there is no gas. It is available - in Bangladesh's northern gas fields - but there is no pipeline to bring it south to the plant.

A pipeline was to have been built to complete the north-south link by the end of this year. But it has failed to materialise. Construction and financing - originally expected from the World Bank - are still in doubt.

The Government of Bangladesh, which is a 40 per cent shareholder in the project, has told Kafco that the Ashuganj-Bakharabad (A-B) pipeline will go ahead. In the meantime, it has promised to supply gas by rehabilitating two gas wells at Bakharabad, north of Chittagong, and to start drilling another at Feni. These, says the government, will supply the plant until the A-B pipeline is built.

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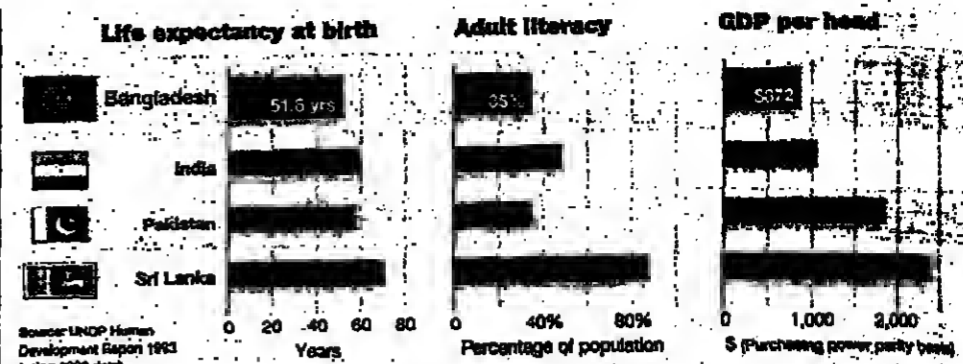
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"Kafco will get its gas," says



Profile: Bangladesh Rural Advancement Committee

## Aid for the poorest

Hawahibi, a 35-year-old village mother of four, was destitute until she borrowed Tk7,000 to erect a chicken coop and buy nine hens and a rooster.

Six years later, she has built herself a house of wood and bamboo and a shed, and has enough money to send her children to secondary school.

The loan that changed her life came from the Bangladesh Rural Advancement Committee, the biggest non-government organisation in Bangladesh and one of the world's largest development aid institutions in terms of the number of people that it reaches.

"Without BRAC's loan, we could never have thought of improving our standard of living," says Hawahibi, who lives in the densely-populated rice-growing district of Mirzapur, north of Dhaka. She is one of 480,000 Bangladeshi women to have received BRAC loans to rear chickens, while about 400,000 have borrowed money for cattle, tea planting, silk farming, irrigation schemes and weaving. BRAC has also taught 13m women how to treat diarrhoea; it runs 22,000 primary schools and plans to have 100,000 by the year 2000.

BRAC shows what can be achieved in Bangladesh, even with limited resources. A non-profit making organisation, it receives 70 per cent of its \$40m annual income from foreign aid donors. There is a high priority on cost control and making the most of its funds. BRAC's schools operate at lower costs than the government's. In its credit operations, bad debts run at under 2 per cent of lending, even though borrowers are charged annual interest of 20 per cent.

As for revenue, BRAC tries to generate as much of its own as possible - 30 per cent of its income comes from commercial activities, including a chain of handicraft shops. This month it will open its first overseas outlet - in Islington, London.

In 1972, Mr F. H. Abed, a former accountant with Shell, the international oil group, set up BRAC in the wake of Bangladesh's independence war and with the help of money from Oxfam, the British charity. Its first work was post-war reconstruction, particularly the restoration of damaged homes.

Mr Abed devised the plan to open BRAC handicraft stores overseas. It was also his suggestion that the British government should recruit unemployed British graduates as teachers to work in BRAC schools for a year or two.

BRAC's schools generally cater for children who are so poor they would usually have no education at all. However, the quality of education provided is widely regarded to be better than that of rural government schools. BRAC recruits part-time untrained graduate volunteers as teachers because they are cheaper than qualified professionals; it maintains standards by providing intensive training courses, highly-structured material for use in class and frequent monitoring.

The combination is so effective that BRAC's methods have been praised by Unicef, the United Nations organisation for children, and copied by other countries.

Today, BRAC's most delicate political problem comes in fending off attacks from con-

servative Islamic clerics, who condemn its efforts to elevate the status of women as "Christianisation".

"We get a lot of flak from the mullahs," says Mr Abed. About 5 per cent of the 700,000 children at BRAC schools have been kept away from class by parents influenced by the clergy. Some mullahs have even ruled that membership of a BRAC credit co-operative is grounds for divorce.

But Mr Abed believes strongly that bringing women into economic activity is vital to Bangladesh's future. The majority of participants in BRAC schemes are women, whom BRAC has found to be better credit risks than men.

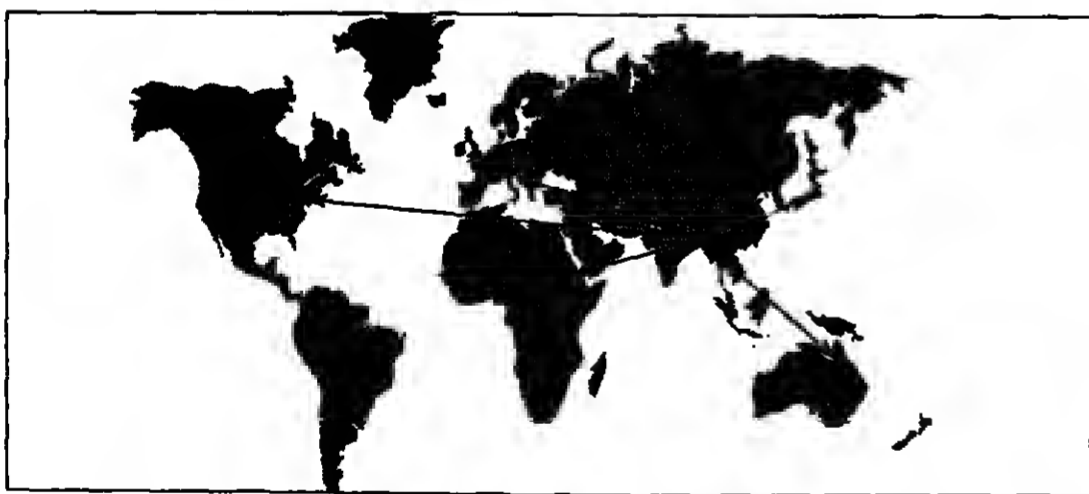
Mr Abed says women benefit more from BRAC than men because they are new to work outside their immediate household and so are more conscientious. Also, women are, from an early age, brought up to bear responsibilities, first for their younger siblings and later for their own children.

"In the 1975 famine, men deserted their families to look for food. Women stayed with their children. Survival in the villages depends more on women than on men."

While Bangladesh has seen steady economic growth, particularly in the past three years, half of the 120m people live below the government's poverty line. Mr Abed believes the poor will not benefit unless the growth rate rises from recent levels of 4.5 per cent annually to 6.7 per cent. "In the meantime, we must target programmes at the poorest people."

Stefan Wagstyl

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## Bangladesh

## Doing Business with Bangladesh

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(\*) Price set in UK (excepted) or (excepted) or (excepted)  
share (excepted) or (excepted) or (excepted) or (excepted)  
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Supervisory Commission, Jersey, (excepted) or (excepted)

## CURRENCIES AND MONEY

## POUND SPOT FORWARD AGAINST THE POUND

May 8	Closing mid-point	Change on day	30 days	90 days	180 days	360 days	1 year	2 years	3 years	4 years	5 years	Bank of England
Europe												
Austria (Sch)	17.5188	-0.0001	108	-284	17.5011	17.5001	17.516	0.3	17.5104	0.2	-	113.5
Belgium (Bfr)	51.1876	-0.0108	629	-122	51.4900	51.1070	51.1886	0.1	51.2126	-0.2	61.0126	0.3
Denmark (DKr)	8.7643	-0.0002	285	-30	8.7623	8.7445	8.7445	-1.3	8.7576	-1.0	8.7675	-0.3
France (FFr)	8.5227	-0.0042	187	-267	8.5172	8.5116	8.5276	-0.7	8.5337	-0.5	8.4966	0.3
Germany (DM)	2.4859	-0.0111	844	-87	2.4808	2.4821	2.4857	0.1	2.4863	0.1	2.486	0.3
Greece (Dr)	355.317	-2.081	821	-612	358.273	355.198	355.198	1.027	-0.6	1.026	-0.1	105.5
Ireland (Ir£)	1.0384	-0.0002	268	-273	1.0381	1.0381	1.0381	1.027	-0.1	1.030	-0.1	105.5
Italy (Lit)	2367.22	-16.29	580	-864	2406.34	2365.52	2365.52	-3.1	2405.97	-2.7	2405.27	-2.0
Luxembourg (Lfr)	51.1876	-0.0108	629	-122	51.4900	51.1070	51.1886	0.1	51.2126	-0.2	61.0126	0.3
Netherlands (Gld)	2.7917	-0.0105	900	-834	2.8004	2.7887	2.7917	0.0	2.7911	0.1	2.7704	0.3
Norway (Nkr)	10.7653	-0.0029	804	-808	10.8273	10.7943	10.7943	0.0	10.7924	-0.3	10.7635	0.0
Portugal (Esc)	253.222	-0.0001	801	-302	253.222	252.197	252.197	-4.8	252.142	-4.8	252.142	-4.8
Spain (Ptas)	166.639	-0.0001	801	-302	166.639	166.639	166.639	-3.0	166.639	-2.9	166.639	-2.1
Sweden (Skr)	11.4988	-0.0044	804	-803	11.5744	11.4717	11.5200	-2.2	11.5589	-2.0	11.5789	-1.5
Switzerland (Sfr)	2.1132	-0.0102	120	-144	2.1254	2.1105	2.1112	0.1	2.1057	0.2	2.1075	0.3
UK												
EUR												
SDR												

## DOLLAR SPOT FORWARD AGAINST THE DOLLAR

May 8	Closing mid-point	Change on day	30 days	90 days	180 days	360 days	1 year	2 years	3 years	4 years	5 years	J.P. Morgan
Europe												
Austria (Sch)	11.7425	-0.0015	400	-430	11.7725	11.7225	11.7375	-1.5	11.7675	-0.9	11.7425	0.0
Belgium (Bfr)	34.3080	-0.0002	130	-130	34.4500	34.2750	34.343	-1.2	34.378	-0.8	34.343	-0.1
Denmark (DKr)	8.5643	-0.0005	235	-255	8.5654	8.5164	8.558	-2.2	8.5558	-1.7	8.5505	-0.6
France (FFr)	8.5227	-0.0042	187	-267	8.5172	8.5116	8.5276	-0.7	8.5337	-0.5	8.4966	0.3
Germany (DM)	2.4859	-0.0111	844	-87	2.4808	2.4821	2.4857	0.1	2.4863	0.1	2.486	0.3
Greece (Dr)	355.317	-2.081	821	-612	358.273	355.198	355.198	1.027	-0.6	1.026	-0.1	105.5
Ireland (Ir£)	1.0384	-0.0002	268	-273	1.0381	1.0381	1.0381	1.027	-0.1	1.030	-0.1	105.5
Italy (Lit)	2367.22	-16.29	580	-864	2406.34	2365.52	2365.52	-3.1	2405.97	-2.7	2405.27	-2.0
Luxembourg (Lfr)	51.1876	-0.0108	629	-122	51.4900	51.1070	51.1886	0.1	51.2126	-0.2	61.0126	0.3
Netherlands (Gld)	2.7917	-0.0105	900	-834	2.8004	2.7887	2.7917	0.0	2.7911	0.1	2.7704	0.3
Norway (Nkr)	10.7653	-0.0029	804	-808	10.8273	10.7943	10.7943	0.0	10.7924	-0.3	10.7635	0.0
Portugal (Esc)	253.222	-0.0001	801	-302	253.222	252.197	252.197	-4.8	252.142	-4.8	252.142	-4.8
Spain (Ptas)	166.639	-0.0001	801	-302	166.639	166.639	166.639	-3.0	166.639	-2.9	166.639	-2.1
Sweden (Skr)	11.4988	-0.0044	804	-803	11.5744	11.4717	11.5200	-2.2	11.5589	-2.0	11.5789	-1.5
Switzerland (Sfr)	2.1132	-0.0102	120	-144	2.1254	2.1105	2.1112	0.1	2.1057	0.2	2.1075	0.3
UK												
EUR												
SDR												

## CROSS RATES AND DERIVATIVES

May 8	Closing mid-point	Change on day	30 days	90 days	180 days	360 days	1 year	2 years	3 years	4 years	5 years	Bank of England
Europe												
Austria (Sch)	17.5188	-0.0001	108	-284	17.5011	17.5001	17.516	0.3	17.5104	0.2	-	113.5
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Sweden (Skr)	11.4988	-0.0044	804	-803	11.5744	11.4717	11.5200	-2.2	11.5589	-2.0	11.5789	-1.5
Switzerland (Sfr)	2.1132	-0.0102	120	-144	2.1254	2.1105	2.1112	0.1	2.1057	0.2	2.1075	0.3
UK												
EUR												
SDR												

## FIXED INTEREST RATES

May 8	Closing mid-point	Change on day	30 days	90 days	180 days	360 days	1 year	2 years	3 years	4 years	5 years	J.P. Morgan
Europe												
Austria (Sch)	11.7425	-0.0015	400	-430	11.7725	11.7225	11.7375	-1.5	11.7675	-0.9	11.7425	0.0
Belgium (Bfr)	34.3080	-0.0002	130	-130	34.4500	34.2750	34.343	-1.2	34.378	-0.8	34.343	-0.1
Denmark (DKr)	8.5643	-0.0005	235	-255	8.5654	8.5164	8.558	-2.2	8.5558	-1.7	8.5505	-0.6
France (FFr)	8.5227	-0.0042	187	-267	8.5172	8.5116	8.5276	-0.7	8.5337	-0.5	8.4966	0.3
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Greece (Dr)	355.317	-2.081	821	-612	358.273	355.198	355.198	1.027	-0.6	1.026	-0.1	105.5
Ireland (Ir£)	1.0384	-0.0002	268	-273	1.0381	1.0381	1.0381	1.027	-0.1	1.030	-0.1	105.5
Italy (Lit)	2367.22	-16.29	580	-864	2406.34	2365.52	2365.52	-3.1	2405.97	-2.7	2405.27	-2.0
Luxembourg (Lfr)	51.1876	-0.0108	629	-122	51.4900	51.1070	51.1886	0.1	51.2126	-0.2	61.0126	0.3
Netherlands (Gld)	2.7917	-0.0105	900	-834	2.8004	2.7887	2.7917	0.0	2.7911	0.1	2.7704	0.3
Norway (Nkr)	10.7653	-0.0029	804	-808	10.8273	10.7943	10.7943	0.0	10.7924	-0.3	10.7635	0.0
Portugal (Esc)	253.222	-0.0001	801	-302	253.222	252.197	252.197	-4.8	252.142	-4.8	252.142	-4.8
Spain (Ptas)	166.639	-0.0001	801	-302	166.639	166.639	166.639	-3.0	166.639	-2.9	166.639	-2.1
Sweden (Skr)	11.4988	-0.0044	804	-803	11.5744	11.4717	11.5200	-2.2	11.5589	-2.0	11.5789	-1.5
Switzerland (Sfr)	2.1132	-0.0102	120	-144	2.1254	2.1105	2.1112	0.1	2.1057	0.2	2.1075	0.3
UK												
EUR												
SDR												

## CROSS RATES AND DERIVATIVES

May 8	Closing mid-point	Change on day	30 days	90 days	180 days	360 days	1 year	2 years	3 years	4 years	5 years	Bank of England
Europe												
Austria (Sch)	17.5188	-0.0001	108	-284	17.5011	17.5001	17.516	0.3	17.5104	0.2	-	113.5
Belgium (Bfr)	51.1876	-0.0108	629	-122	51.4900	51.1070	51.1886	0.1	51.2126	-0.2	61.0126	0.3
Denmark (DKr)	8.7643	-0.0002	285	-30	8.7623	8.7445	8.7445	-1.3	8.7576	-1.0	8.7675	-0.3
France (FFr)	8.5227	-0.0042	187	-267	8.5172	8.5116	8.5276	-0.7	8.5337	-0.5	8.4966	0.3
Germany (DM)	2.4859	-0.0111	844	-87	2.4808	2.4821	2.4857	0.1	2.4863	0.1	2.486	0.3
Greece (Dr)	355.317	-2.081	821	-612	358.273	355.198	355.198	1.027	-0.6	1.026	-0.1	105.5
Ireland (Ir£)	1.0384	-0.0002	268	-273	1.0381	1.0381	1.0381	1.027	-0.1	1.030	-0.1	105.5
Italy (Lit)	2367.22	-16.29	580	-864	2406.34	2365.52	2365.52	-3.1	2405.97	-2.7	2405.27	-2.0
Luxembourg (Lfr)	51.1876	-0.0108	629	-122	51.4900	51.1070	51.1886	0.1	51.2126	-0.2	61.0126	0.3
Netherlands (Gld)	2.7917	-0.0105	900	-834	2.8004	2.7887	2.7917	0.0	2.7911	0.1	2.7704	0.3
Norway (Nkr)	10.7653	-0.0029	804	-808	10.8273	10.7943	10.7943	0.0	10.7924	-0.3	10.7635	0.0
Portugal (Esc)	253.222	-0.0001	801	-302	253.222	252.197	252.197	-4.8	252.142	-4.8	252.142	-4.8
Spain (Ptas)	166.639	-0.0001	801	-302	166.639	166.639	166.639	-3.0	166.639	-2.9	166.639	-2.1
Sweden (Skr)	11.4988	-0.0044	804	-803	11.5744	11.4717	11.5200	-2.2	11.5589	-2.0	11.5789	-1.5
Switzerland (Sfr)	2.1132	-0.0102	120	-144	2.1254	2.1105	2.1112	0.1	2.1057	0.2	2.1075	0.3
UK												
EUR												
SDR												

Wt %	ON	ED
100	100	100
90	90	90
80	80	80
70	70	70
60	60	60
50	50	50
40	40	40
30	30	30
20	20	20
10	10	10
0	0	0

[illegible]

For Col Priv Eq	1.00	1.00	1.00
For Col Small	1.00	1.00	1.00

First Nat'l City Banc	44	-2.5						
Marathon	27	-1.5	1.4	26.5	24.5			
French Press	44							
Worthington	22	-1.5						
Fidelity Pub. Educ. Adm.	44							
Worthington	22	-1.5						
First Nat'l City Banc	44		0.57	26.5	24.5	24.5	24.5	24.5
Marathon	27	-1.5						
French Press	44							
Worthington	22	-1.5						
Fidelity Pub. Educ. Adm.	44							
Worthington	22	-1.5						
First Nat'l City Banc	44							
Marathon	27	-1.5						
French Press	44							
Worthington	22	-1.5						
Fidelity Pub. Educ. Adm.	44							
Worthington	22	-1.5						
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Marathon	27	-1.5						
French Press	44							
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Fidelity Pub. Educ. Adm.	44							
Worthington	22	-1.5						
First Nat'l City Banc	44							

Units	8826	708.0
Carlson Starred Ex. Inc.	227	9.37

[illegible]

Long Peter & Son	20	-1.8	-
Warrants	20	-	-
Long Sprocket Co's	90	-2.0	3.67 J

[illegible]

**INVESTMENT TRUSTS - Cont.****LEISURE & HOTELS - Cont.**

## OIL- INTEGRATED

## PROPERTY - Cont.

**SPIRITS, WINES & CIDERS****TRANSPORT - Cont.**

## WATER

## 45 80 SUPPORT SERVICES

## AMERICANS

## CANADIANS

## SOUTH AFRICANS

## GUIDE TO LONDON SHARE SERVICE

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds.

□ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.

♦ Figures or report omitted  
 ♦ Not officially UK listed; dealings permitted under rule 535(4)(a)  
 ♦ Free annual/interim report available, see details below.  
 ♦ US-list; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.  
 ♦ Not officially UK listed; dealings permitted under rule 535(4)(a)

† Not officially an IPO; offerings permitted under Rule 505(c)  
 \* Price at time of suspension  
 ‡ Indicated dividend after pending scrip and/or rights issue, cover relating to previous dividend or forecast.  
 † Merger bid or reorganization in progress  
 § Forecast dividend; cover based on earnings updated by latest interim

† Unregulated collective investment scheme.

official estimates.  
e Cents.  
f Flat yield.  
g Assumed dividend.  
h Assumed dividend  
after seven years.  
i Special payment.  
j Dividend based on  
prospectus or other  
official estimates for  
1994-95.  
k Assumed dividend

on interim figures rather than previous total.  
 n Rights issue pending  
 o Earnings based on preliminary figures.  
 p Prospectus pending  
 r Dividend based on prospectus or other official estimates for  
 s Forecast annualised dividend, cover based on prospectus or other official estimates.  
 t Figures assumed.

1 Dividend excludes a special payment.  
 1 Indicated dividend cover relates to previous dividend.  
 2 Exceeded or estimated


11 Dividend based on  
 annualized dividend  
 rate, cover based on  
 previous year's  
 earnings.  
 \* Not subject to ACT.

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Call 071-873 4378 (+44 71 873 4378, international) for more information on FT Cityline.

4 pm close May 6

## NEW YORK STOCK EXCHANGE COMPOSITE PRICES

17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17
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## NYSE COMPOSITE PRICES

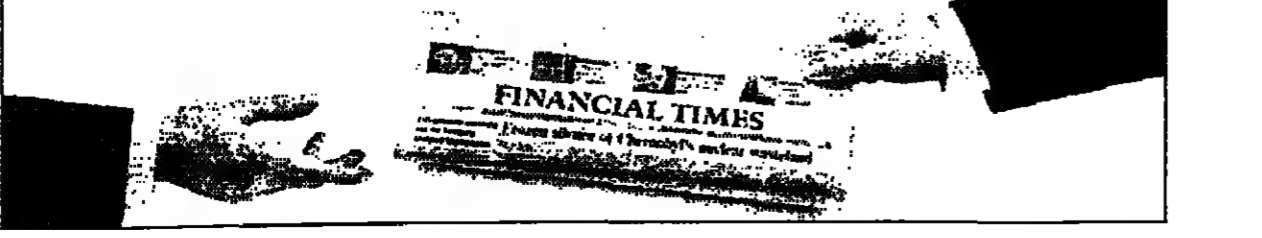
[illegible]

## AMEX COMPOSITE PRICES

Stock										Stock										
Wk.	PV	Stk	High	Low	Close	Chng	Wk.	PV	Stk	High	Low	Close	Chng	Wk.	PV	Stk	High	Low	Close	Chng
10/18	10/18						10/18	10/18						10/18	10/18					
1	46	28	3	1	1	+	1	46	28	3	1	1	+	1	46	28	3	1	1	+
2	1	83	33	1	1	+	2	1	83	33	1	1	+	3	1	83	33	1	1	+
3	1	83	33	1	1	+	4	1	83	33	1	1	+	5	1	83	33	1	1	+
4	1	83	33	1	1	+	6	1	83	33	1	1	+	7	1	83	33	1	1	+
5	1	83	33	1	1	+	8	1	83	33	1	1	+	9	1	83	33	1	1	+
6	1	83	33	1	1	+	10	1	83	33	1	1	+	11	1	83	33	1	1	+
7	1	83	33	1	1	+	12	1	83	33	1	1	+	13	1	83	33	1	1	+
8	1	83	33	1	1	+	14	1	83	33	1	1	+	15	1	83	33	1	1	+
9	1	83	33	1	1	+	16	1	83	33	1	1	+	17	1	83	33	1	1	+
10	1	83	33	1	1	+	18	1	83	33	1	1	+	19	1	83	33	1	1	+
11	1	83	33	1	1	+	20	1	83	33	1	1	+	21	1	83	33	1	1	+
12	1	83	33	1	1	+	22	1	83	33	1	1	+	23	1	83	33	1	1	+
13	1	83	33	1	1	+	24	1	83	33	1	1	+	25	1	83	33	1	1	+
14	1	83	33	1	1	+	26	1	83	33	1	1	+	27	1	83	33	1	1	+
15	1	83	33	1	1	+	28	1	83	33	1	1	+	29	1	83	33	1	1	+
16	1	83	33	1	1	+	31	1	83	33	1	1	+	32	1	83	33	1	1	+
17	1	83	33	1	1	+	33	1	83	33	1	1	+	34	1	83	33	1	1	+
18	1	83	33	1	1	+	35	1	83	33	1	1	+	36	1	83	33	1	1	+
19	1	83	33	1	1	+	37	1	83	33	1	1	+	38	1	83	33	1	1	+
20	1	83	33	1	1	+	39	1	83	33	1	1	+	40	1	83	33	1	1	+
21	1	83	33	1	1	+	41	1	83	33	1	1	+	42	1	83	33	1	1	+
22	1	83	33	1	1	+	43	1	83	33	1	1	+	44	1	83	33	1	1	+
23	1	83	33	1	1	+	45	1	83					46	1	83	33	1	1	+
24	1	83	33	1	1	+	47	1	83					48	1	83	33	1	1	+
25	1	83	33	1	1	+	49	1	83					50	1	83	33	1	1	+
26	1	83	33	1	1	+	51	1	83					52	1	83	33	1	1	+
27	1	83	33	1	1	+	53	1	83					54	1	83	33	1	1	+
28	1	83	33	1	1	+	55	1	83					56	1	83	33	1	1	+
29	1	83	33	1	1	+	57	1	83					58	1	83	33	1	1	+
30	1	83	33	1	1	+	59	1	83					60	1	83	33	1	1	+
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32	1	83	33	1	1	+	63	1	83					64	1	83	33	1	1	+
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34	1	83	33	1	1	+	67	1	83					68	1	83	33	1	1	+
35	1	83	33	1	1	+	69	1	83					70	1	83	33	1	1	+
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41	1	83	33	1	1	+	81	1	83					82	1	83	33	1	1	+
42	1	83	33	1	1	+	83	1	83					84	1	83	33	1	1	+
43	1	83	33	1	1	+	85	1	83					86	1	83	33	1	1	+
44	1	83	33	1	1	+	87	1	83					88	1	83	33	1	1	+
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62	1	83	33	1	1	+	123	1	83					124	1	83	33	1	1	+
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64	1	83	33	1	1	+	127	1	83					128	1	83	33	1	1	+
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68	1	83	33	1	1	+	135	1	83					136	1	83	33	1	1	+
69	1	83	33	1	1	+	137	1	83					138	1	83	33	1	1	+
70	1	83	33	1	1	+	139	1	83					140	1	83	33	1	1	+
71	1	83	33	1	1	+	141	1	83					142	1	83	33	1	1	+
72	1	83	33	1	1	+	143	1	83					144	1	83	33	1	1	+
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86	1	83	33	1	1	+	171	1	83					172	1	83	33	1	1	+
87	1	83	33	1	1	+	173	1	83					174	1	83	33	1	1	+
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90	1	83	33	1	1	+	179	1	83					180	1	83	33	1	1	+
91	1	83	33	1	1	+	181	1	83					182	1	83	33	1	1	+
92	1	83	33	1	1	+	183	1	83					184	1	83	33	1	1	+
93	1	83	33	1	1	+	185	1	83			</								

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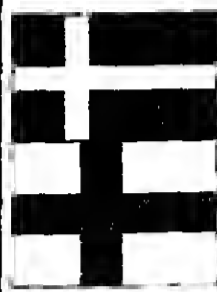
**NASDAQ NATIONAL MARKET**[illegible]

## FT GUIDE TO THE WEEK

9

MONDAY

## Swedes and Finns sign up



Sweden and Finland will today break with a long Cold War tradition of neutrality when they sign up for Nato's Partnership for Peace at a formal ceremony in Brussels.

Both countries plan to offer training in areas like peacekeeping, but they stress that they are not seeking full membership of the alliance.

**Mandela takes the helm:** South Africa's multiracial National Assembly is scheduled to sit for the first time in Cape Town. It is expected formally to elect Nelson Mandela as president. Dignitaries will then decamp to Pretoria, where Mandela is to be sworn in as president at an inauguration ceremony on Tuesday.

**US vice-president Al Gore,** accompanied by First Lady Hillary Clinton, arrives in South Africa to attend tomorrow's swearing-in of Nelson Mandela. Vice-President Gore travels on to Namibia, while Mrs Clinton returns to the US.

**Bank of Africa:** The African Development Bank starts its 30th anniversary celebrations in Nairobi (to May 3) with a fundamental shake-up in the office. The deteriorating relations between the president, Babacar Ndiaye, and the board of governors will be discussed, as will a critical report on the performance of the bank's projects, which have not been doing well.

Leading member countries say they are holding back the replenishment of the bank's soft-loan fund. The ADB is one of Africa's biggest sources of development finance, with a disbursed loan portfolio of more than \$7bn.

**West goes east:** At a Western European Union meeting in Luxembourg, steps will be taken to consolidate the nine-member group's status as a defence association. Nine former Eastern bloc states will become associate partners, and Turkey, Norway and Iceland will be drawn closer into the group's embryonic military planning activities.

**UK education:** Sir Ron Dearing, chairman of the Schools Curriculum and Assessment Authority, will outline his proposals for simplifying the national curriculum in England and Wales. He will suggest which subjects and topics should no longer be compulsory. After a period of consultation, the changes should be ready for the school year beginning September 1995.

**Holidays:** Russia and other members of the Commonwealth of Independent States (Victory Day).

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TUESDAY

## Hata in the lions' den

Tsutomu Hata, Japan's prime minister, enters the lions' den when he delivers his first policy speech to parliament, setting the tone for what is expected to be a short-lived administration.

**Crimea's pro-Russian parliament** debates whether to hold a referendum in June on secession from Ukraine.

**Australian budget:** Ralph Willis, the treasurer, will unveil Australia's 1994/95 budget. In the light of last week's A\$6.5bn (\$4.6bn) jobs package, attention will focus on the federal government's growth assumptions and its revenue-raising plans - including the timing of asset sales and privatisation moves.

**Gold Fields Mineral Services** publishes its annual survey of the gold market. Traders will scan it eagerly for a price forecast - something not always included. GFMS, which is financially backed by two big producers, last year suggested that gold would range between US\$370 and \$400 a troy ounce, which turned out to be remarkably accurate.

## Tilting at chessmen

The Verenegde Spaarbank chess tournament is played in Amsterdam until 18 May. Short won this annual invitation for the world's top grandmasters in 1991, 1992 and 1993, but now faces Kasparov. Other entrants are Timman (Netherlands) and Ivanchuk (Ukraine). Kasparov has refused to play.

**Venture seminar:** The British Venture Capital Association and the Inland Revenue sponsor a one-day seminar at London's Queen Elizabeth II Conference Centre on how to structure venture capital investment trusts. The trusts, proposed in last November's UK budget, will allow private investors tax-free dividends and capital gains for investments up to £100,000. But some venture capitalists say the government needs to make the terms more attractive or the trusts will fail to attract investors and sponsors.

**Salerooms:** In New York tonight, Christie's is selling some of the most important Impressionist and modern paintings to appear on the market since the price collapse of 1990. A group from the collection of Meshulam Riklis, a US businessman, includes a picturesque Monet of his stepdaughters on a boat, estimated at up to \$7m, and a Modigliani portrait, with a \$6m tag. From another private collection comes a Gauguin landscape of Pont-Aven, also expected to make \$7m. If the sale goes well, the art market recovery will have been confirmed.

**Holidays:** South Africa.

11

WEDNESDAY

## Yeltsin visits Germany



Russia's President Boris Yeltsin (left) arrives for an official visit to Germany (to May 13). Among the items on the agenda will be the question of appropriate ceremonial honours.

for the departure of Russian troops from Berlin in the summer.

**Ukraine's President Leonid Kravchuk** is expected to ask parliament to postpone the June presidential elections. Although Mr Kravchuk has registered as a candidate, he fears a "vacuum of power" in the country if elections are held before the parliament - recently elected and politically divided - is well-established and a post-Soviet constitution passed.

**UK economy:** Attention will be focused on the price of recovery again with the release of March's output data. Analysts predict the figures will show that the corporate recovery is still in reasonable shape, though continuing at a more moderate rate.

Manufacturing figures are expected to show a 2.4 per cent year-on-year increase and a 0.2 per cent month-on-month rise - down from 0.3 per cent in February. Industrial production is expected to show a 0.2 per cent rise, down from 0.8 per cent in February.

**Salerooms:** Sotheby's sale of Impressionist and modern art in New York tonight includes a painting by Mondrian from the collection of former CIA deputy director H. Gates Lloyd. He bought it from the artist in 1942. It should make in excess of \$3m. Among the lots is 'A bather drying her legs' (below) by Degas, estimated between \$500,000 and \$700,000.



**Holidays:** Sweden (Eve of Ascension).

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THURSDAY

## Japan's bonsai government

Tsutomu Hata, Japan's prime minister, is due to take parliamentary questions on Tuesday's policy speech today and tomorrow. His opponents intend to give him a grilling. They are determined to vote his minority government out of power soon after the budget for this year is passed, probably in June.

The Social Democratic Party, which recently walked out of the coalition over an attempt to squeeze it out of policy making, will seize on last week's debacle, when Mr Hata's justice minister had to resign after saying that one of the worst Japanese atrocities of the second world war never happened.

**Mex-TV:** In the first televised presidential debate in Mexican political history, the ruling Institutional Revolutionary Party candidate, Ernesto Zedillo, takes on Cuauhtémoc Cárdenas of the Party of the Democratic Revolution from the left and Diego Fernández de Cevallos from the National Action Party from the right.

**The Silver Institute,** a producer-backed organisation based in Washington, releases its annual survey of the world silver market. It is likely to suggest that silver demand outpaced supply by as much as 250m troy ounces in 1993, the fourth successive year that the market was in deficit. This has been possible because consumers have been able to dig into the huge stocks that have been depressing prices for many years.

## Cannes film festival

The 47th Cannes film festival gets under way, though this year it may be more of a coterie spree on the Cote d'Azur (to May 23). Hollywood is keeping its big films away, in reported annoyance at flag-waving French protectionism during Gatt. In compensation, there are many fresh names from countries which have less developed movie industries, including Peru, Tunisia, Taiwan, Mexico and Romania - and a nation some think qualifies for its own place on a third-world movie map, Great Britain.

**Norway's prime minister,** Gro Harlem Brundtland, is to receive the Charlemagne Prize at a ceremony in Aachen in recognition of her efforts for social justice and the enhancement of European co-operation. She is the second Scandinavian and the second woman to be awarded the honour.

**Holidays:** Austria, Belgium, Denmark, Finland, France, Germany, Indonesia, Luxembourg, Netherlands, Norway, South Africa, Sweden (Ascension Day), India (Bombay only).



Nelson Mandela becomes South Africa's president this week. (Forbes is on time)

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FRIDAY

## Major rallies Scots Tories

John Major, UK prime minister and Conservative party leader, addresses the annual Scottish Conservative party conference in his first big political engagement since the party's disastrous performance in local government elections last week.

Major will try to rally the faithful for the European parliament elections on June 9, keenly aware that another catastrophic defeat could end his premiership. He will also want to put fresh heart into the demoralised Scottish Tories, who fared even worse in the local elections than their English and Welsh colleagues.

**Grenadian embassy:** The US Congress must decide by today whether to override a State Department plan to close the US embassy on Grenada. President Reagan sent 7,000 troops to oust a leftwing government on the Caribbean island in October 1983.

**In the ascendant:** The organisers of a conference on Astrology and the Stock Market, which starts in New York today, have chosen an auspicious date on which to begin it (to May 15).

**Holidays:** Belgium.

14-15

WEEKEND

## Blackpool's tower of gold

Blackpool Tower, landmark of the seaside resort in north-west England, celebrates its centenary of opening to the public on Saturday. The local council has painted the tower gold to mark the event.

**The FA cup final,** highlight of the English soccer season, pits Chelsea against Manchester United at the Wembley stadium in London on Saturday.

**Revote in Togo:** Ballots are repeated on Sunday in three constituencies where the Supreme Court annulled the results of February's election.

**Unison,** the result of three UK public sector unions combining last July, convenes in Bournemouth on Sunday for its first annual conference. It has ousted the TGWU as Britain's biggest union. Confronting the government's pay bill freeze will dominate the agenda, but the meeting may find itself diverted by teething problems associated with the merger.

**Monaco Grand Prix:** The Formula One season continues on Sunday after two drivers died in separate accidents at Imola two weeks ago.

## ECONOMIC DIARY

## Statistics to be released this week

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual	Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	Japan	April trade balance, first 20 days	-	\$7.2bn	Thur	US	April Atlanta Fed Index	-	35.2
May 9	Japan	Mar current a/c - IMF	\$19.7bn	\$11.9bn	May 12	US	April monthly M1	-\$1.3bn	\$3.8bn
	Japan	Mar trade balance - IMF	-	\$12.9bn	(cont)	US	April monthly M2	\$9bn	\$15.4bn
	Japan	Mar foreign bond investment	-	-\$0.4bn		US	April monthly M3	\$10.3bn	\$6.9bn
	UK	Mar consumer credit	£225m	£277m		UK	Feb visible trade, global	-\$1.1bn	-\$0.92bn
	Canada	April housing starts - units	166,000	142,000		Austria	April unemployment rate	10.4%	10.3%
Tues	US	Johnson Redbook, w/e May 7	-	-0.2%	Fri	US	April consumer prices index	0.3%	0.3%
May 10	Canada	Mar department store sales	12%	8.9%	May 13	US	Ditto, ex food and energy	0.3%	0.3%
	Norway	April consumer prices index	0.2%	0.5%		US	Mar business inventories	0.2%	0.6%
Wed	France	Feb industrial prod, seasonally	0.6%	-0.2%		US	April real earnings	-	0.9%
May 11	France	Feb manufacturing prod, seasonally	0.6%	1.2%		US	April bank credit	-	10.4%
	France	Apr consumer prices index, prelim	1.6%	1.5%		Spain	April consumer prices index	0.3%	0.3%
	UK	Mar manufacturing output	0.3%	0.6%		Spain	April consumer prices index	-4.9%	5%
	UK	Mar manufacturing output	2.4%	1.7%					
	UK	Mar industrial production	0.2%	0.8%					
	Netherlands	April consumer prices index	2.9%	2.9%					
Thurs	US	April retail sales	0.3%	0.4%					
May 12	US	Ditto, ex autos	0.5%	0.4%					
	US	April producer prices index	0.2%	0.2%					
	US	Ditto, ex food and energy	0.2%	0.2%					
	US	Initial claims, w/e May 7	-	350,000					
	US	M1, w/e May 2	\$3.5bn	-\$1.3bn					
	US	M2, w/e May 2	\$8bn	-\$5.5bn					
	US	M3, w/e May 2	\$4.5bn	-\$12.5bn					
	US	State benefits, w/e April 30	-	2.67m					

\*month on month; \*\*year on year

Statistics, courtesy MMS International.

## Other economic news

**Monday:** Japan's monthly trade balance figures will be watched with interest on the currency markets in the light of the recent strengthening of the yen. Analysts expect another substantial surplus, several billion higher than the ¥12.5bn recorded last month.

**Tuesday:** The Bank of England's quarterly report is expected to underline the UK central bank's cautious stance. Analysts will be looking for any hint of a move away from its recent interest rate cuts.

**Wednesday:** French output figures for February are expected to provide evidence of a slight recovery in the corporate sector. Industrial production is expected to show modest growth of 0.6 per cent, after falling by 0.2 per cent in January. Manufacturing is also expected to show 0.6 per cent growth.

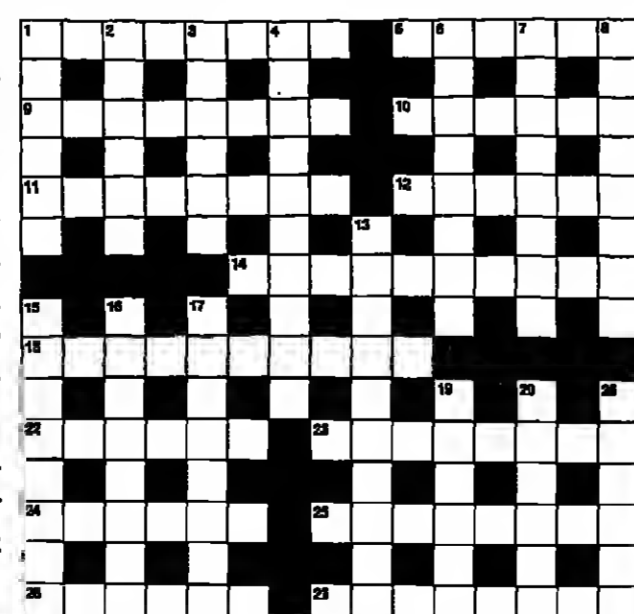
**Thursday:** A spate of US data will again focus attention on the US recovery, against a background of market concern about US interest rate and exchange rate policy. PPI figures out today and CPI figures on Friday are expected to show inflation staying low. Retail sales, excluding vehicles, are expected to show a small rise.

## ACROSS

- Number of round holes? (6)
- Verify if back in rebuilt farm (6)
- Can shut a faulty plant (6)
- Wrap end of divan being lifted (6)
- Very quick round of coffee (6)
- King and Queen taking man's foreign coins (6)
- Handle on cleaner brushes against mistress cover (10)
- Urged to stop consuming spirit (10)
- In which Irene generally has to go back (6)
- After party he leaves here with workman (6)
- Bored doctor with mild diseases (6)
- Tell tales about Lofy prevaricating (6)
- Result of having a lousy hand? (6)
- Backed into empty road, always taking directions (6)

## DOWN

- Crossword compiler slipped in the back way for paint (6)
- Understand the informer accepts little money (6)
- Tie the better half around (6)
- Are in trouble about search being mounted (10)
- Artistic movement Rufus and 'Tim developed (6)
- Sick and in love is somewhere in America (6)
- Mae drank liquidised narcotic plant (6)
- Warning shout to man on board part of vessel (10)
- Where he takes newlyweds? (6)
- Sweep the row that's shorter (6)
- Throw on top of a blue building (6)
- Dog chewed up lilo in church (6)
- Is bran more suitable for clever people? (6)
- Extremely cold fellow and very strict (6)

MONDAY PRIZE CROSSWORD  
No.8,448 Set by GRIFFIN

A prize of a Pelikan New Classic 360 fountain pen for the first correct solution opened and five runner-up prizes of £25 Pelikan vouchers will be awarded. Solutions by Thursday May 12, marked Monday Crossword 8,448 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 8UL. Solution on Monday May 23.

Name:

Address:

Winners 8,437

K. Aiken, Kendal, Cumbria  
J.H. Hardman, Kirkby Lonsdale, Cumbria  
A. Mabbett, Hanksell, Essex  
S.A. Phillips, Blacknest, Hampshire  
D. Scott, Perth, Tayside  
F.J.R. Wright, Wistaston, Cheshire

Solution 8,437



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